



STATE OF NEW JERSEY

Single Audit Report

Year ended June 30, 2003

Independent Auditors' Report on Schedule of Expenditures of Federal Awards

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133

STATE OF NEW JERSEY

Year ended June 30, 2003

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Independent Auditors' Report on Schedule of Expenditures of Federal Awards

The Governor
State of New Jersey:

We have audited the accompanying Schedule of Expenditures of Federal Awards of the State of New Jersey (the Schedule) for the year ended June 30, 2003. This Schedule is the responsibility of the State of New Jersey's management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the Schedule of Expenditures of Federal Awards, the Schedule does not include expenditures of federal awards for those agencies determined to be component units of the State of New Jersey for financial statement purposes. Each of these agencies has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

As described in note 2, the Schedule of Expenditures of Federal Awards is prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the Schedule of Expenditures of Federal Awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the State of New Jersey, as described above, for the year ended June 30, 2003 on the basis of accounting described in note 2.

This report is intended solely for the information and use of management of the State of New Jersey, the U.S. Department of Health and Human Services and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 31, 2004

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003
(Amounts in thousands)

Federal CFDA number	Federal agency/program title	Amounts	
		Expenditures	Passed through to subrecipients
U.S. Department of Agriculture			
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 539	—
10.153	Market News	10	54
10.156	Federal-State Marketing Improvement Program	30	—
10.162	Inspection Grading and Standardization	3	—
10.163	Market Protection and Promotion	35	—
10.450	Crop Insurance	178	171
10.550	Food Donation (nonmonetary)	19,129	19,129
Food Stamp Cluster:			
10.551	Food Stamps (nonmonetary)	335,533	—
10.561	State Administrative Matching Grants for Food Stamp Program	70,738	60,231
	Total Food Stamp Cluster	406,271	60,231
Child Nutrition Cluster:			
10.553	School Breakfast Program	19,211	19,211
10.555	National School Lunch Program	126,961	126,961
10.556	Special Milk Program for Children	860	860
10.559	Summer Food Service Program for Children	6,431	6,118
10.559	Summer Food Service Program for Children (nonmonetary)	16	16
	Total Child Nutrition Cluster	153,479	153,166
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	75,301	14,924
10.558	Child and Adult Care Food Program	40,389	39,950
10.558	Child and Adult Care Food Program (nonmonetary)	203	203
10.560	State Administrative Expenses for Child Nutrition	2,465	—
Emergency Food Assistance Cluster:			
10.568	Emergency Food Assistance Program (Administrative Costs)	1,080	910
10.569	Emergency Food Assistance Program (Commodities)	7,187	7,187
	Total Emergency Food Assistance Cluster	8,267	8,097
10.570	Nutrition Services for the Elderly (Commodities)	4,129	4,129
10.572	WIC Farmer’s Market Nutrition Program (FMNP)	506	—
10.574	Team Nutrition Grants	48	39
10.576	Senior Farmers' Market Nutrition Program	368	—
10.664	Cooperative Forestry Assistance	1,903	192
10.672	Rural Development Forestry and Communities	1	—
10.913	Farmland Protection Program	1,594	1,559
10.914	Wildlife Habitat Incentive Program (WHIP)	10	—
10.UNA	Specialty Crops Grant	750	440
	Total U.S. Department of Agriculture	715,608	302,284
U.S. Department of Commerce			
11.405	Anadromous Fish Conservation Act Program	43	—
11.407	Interjurisdictional Fisheries Act of 1986	111	—
11.413	Fishery Products Inspection and Certification	136	—
11.419	Coastal Zone Management Administration Awards	2,547	80
11.441	Regional Fishery Management Councils	27	—
11.474	Atlantic Coastal Fisheries Cooperative Management Act	415	—
11.550	Public Telecommunications Facilities – Planning & Construction	73	—
	Total U.S. Department of Commerce	3,352	80
U.S. Department of Defense			
12.401	National Guard Military Operations and Maintenance (O&M) Projects	12,441	—
12.UNA	NJ Coastal Heritage Program	11	—
12.UNA	Challenge Youth Program	1,693	—
	Total U.S. Department of Defense	14,145	—

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003
(Amounts in thousands)

Federal CFDA number	Federal agency/program title	Amounts	
		Expenditures	Passed through to subrecipients
U.S. Department of Housing and Urban Development			
14.185	Homeownership and Opportunity for People Everywhere	\$ 79	79
14.228	Community Development Block Grants/State’s Programs	12,643	12,373
14.231	Emergency Shelter Grants Program	2,280	2,217
14.235	Supportive Housing Program	666	93
14.238	Shelter Plus Care	306	—
14.239	HOME Investment Partnerships Program	6,971	3,554
14.240	Hope for the Homeownership of Single Family Homes	3	3
14.241	Housing Opportunities for Persons with AIDS	740	—
14.241	Housing Opportunities for Persons with AIDS Pass-Through – Woodbridge Township	639	—
14.241	Housing Opportunities for Persons with AIDS Pass-Through – City of Paterson	429	—
14.409	Fair Housing Initiatives Program (FHIP) Education and Outreach Initiative	52	—
Section 8 Project-Based Cluster:			
14.856	Lower Income Housing Assistance Program: Section 8 Moderate Rehabilitation	11,505	144
	Total Section 8 Project-Based Cluster	11,505	144
Section 8 Cluster:			
14.871	Section 8 Housing Choice Vouchers	154,416	119
	Total Section 8 Cluster	154,416	119
14.900	Lead-Based Paint Hazard Control in Privately Owned Housing	1,007	—
	Total U.S. Department of Housing and Urban Development	191,736	18,582
U.S. Department of the Interior			
15.308	Grants for Mining and Mineral Resources and Research Institute	71	—
Fish and Wildlife Cluster:			
15.605	Sport Fish Restoration	4,534	35
15.611	Wildlife Restoration	855	—
	Fish and Wildlife Cluster	5,389	35
15.614	Coastal Wetlands Planning, Protection and Restoration Act	1,350	—
15.615	Cooperative Endangered Species Conservation Fund	10	—
15.616	Clean Vessel Act	167	140
15.625	Wildlife Conservation and Restoration	220	—
15.634	State Wildlife Grants	20	—
15.809	National Spatial Data Infrastructure Cooperative Agreements Program	17	13
15.810	National Cooperative Geologic Mapping Program	206	—
15.904	Historic Preservation Fund Grants-in-aid	409	41
15.922	Native Americans Graves Protection & Repatriation Act	73	—
15.UNA	Conservation Red Knots, Chile	8	—
15.UNA	Salem River II	1,977	—
15.UNA	Wild Brook Trout Genetics	8	—
	Total U.S. Department of the Interior	9,925	229
U.S. Department of Justice			
16.007	State Domestic Preparedness Equipment Support Program	1,519	702
16.202	Offender Reentry Program	40	—
16.203	Sex Offender Management Discretionary Grant	3	—
16.523	Juvenile Accountability Incentive Block Grants	4,852	3,395
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	2,339	2,023
16.542	National Institute for Juvenile Justice & Delinquency Prevention	30	29
16.548	Title V: Delinquency Prevention Program.	1,340	1,274
16.549	Part-E: State Challenge Activities (Challenge Grants)	165	135
16.554	National Criminal History Improvement Program (NCHIP)	1,628	—
16.563	Corrections and Law Enforcement Family Support	81	—
16.575	Crime Victim Assistance	8,619	7,275
16.576	Crime Victim Compensation	4,932	460
16.579	Byrne Formula Grant Program	11,932	8,911

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003
(Amounts in thousands)

Federal CFDA number	Federal agency/program title	Amounts	
		Expenditures	Passed through to subrecipients
16.585	Drug Court Discretionary Grant Program	\$ 279	—
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grant	18,031	12,082
16.588	Violence Against Women Formula Grants	3,878	2,792
16.589	Rural Domestic Violence & Child Victimization Enforcement Grant Program	10	10
16.591	Sex Offender Management Grant	10	—
16.592	Local Law Enforcement Block Grants Program	1,270	493
16.593	Residential Substance Abuse Treatment for State Prisoners (RSAT)	1,170	36
16.606	State Criminal Alien Assistance Program	24,458	—
16.607	Bulletproof Vest Partnership Program	90	—
16.710	Public Safety Partnership and Community Policing Grants (COPS)	350	—
16.727	Enforcing Underage Drinking Laws Program	299	261
16.CON	Contractual Agreement-Domestic Marijuana Eradication	196	—
16.UNA	Prompt and Affordable Justice	4	—
	Total U.S. Department of Justice	87,525	39,878
	U.S. Department of Labor		
17.002	Labor Force Statistics	2,674	—
17.005	Compensation and Working Conditions Data	315	—
17.203	Labor Certification for Alien Workers	1,489	—
	<i>Employment Services Cluster:</i>		
17.207	Employment Service	20,210	—
17.801	Disabled Veterans' Outreach Program	1,643	—
17.804	Local Veterans' Employment Representative Program	1,341	—
	Total Employment Services Cluster	23,194	—
17.225	Unemployment Insurance	3,052,217	30
17.235	Senior Community Service Employment Program	2,450	—
17.245	Trade Adjustment Assistance: Workers	1,867	1,718
17.247	Migrant and Seasonal Farmworkers	34	—
17.249	Employment Service and Job Training – Pilots: Demonstration and Research	54	6
17.246	Employment and Training Assistance – Dislocated Workers	6	—
	<i>WIA Cluster:</i>		
17.255	Workforce Investment Act	13,455	734
17.258	Workforce Investment Act-Adult Program	66,146	1,534
17.260	Workforce Investment Act-Dislocated Workers	640	—
	Total WIA Cluster	80,241	2,268
17.253	Welfare-to-Work Grants to States and Localities	6,731	567
17.257	One-Stop Career Center Initiative	300	300
17.261	Employment & Training Administration Pilots, Demonstrations & Research Project	300	18
17.264	Migrant and Seasonal Farmworkers	7	—
17.503	Occupational Safety & Health - State Program	1,981	—
17.504	Consultation Agreements (Occupational Safety and Health)	1,924	—
17.600	Mine Health and Safety Grants	58	—
	Total U.S. Department of Labor	3,175,842	4,907
	U.S. Department of Transportation		
20.005	Boating Safety Financial Assistance	2,697	—
20.106	Airport Improvement Program	5,610	3,821
	<i>Highway Planning and Construction Cluster:</i>		
20.205	Highway Planning and Construction	717,076	—
	Total Highway Planning and Construction Cluster	717,076	—
20.218	National Motor Carrier Safety	4,304	773
20.219	Recreational Trails Program	512	296
20.505	Federal Transit: Metropolitan Planning Grants	3,018	—

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003
(Amounts in thousands)

Federal CFDA number	Federal agency/program title	Amounts	
		Expenditures	Passed through to subrecipients
	<i>Highway Safety Cluster:</i>		
20.600	State and Community Highway Safety	\$ 6,487	2,224
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	138	44
20.604	Safety Incentive Grants For Use Of Seatbelts	775	563
	Total Highway Safety Cluster	7,400	2,831
20.700	Pipeline Safety	538	—
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	330	131
20.CON	Contractual Agreements-Fatal Accidents Reporting System	120	—
20.UNA	Child Passenger Protection	153	166
	Total U.S. Department of Transportation	741,758	8,018
	U.S. Department of Treasury		
21.UNA	Jobs & Growth Tax Relief Act	106,000	106,000
	Total U.S. Department of Treasury	106,000	106,000
	National Foundation on the Arts and the Humanities		
45.025	Promotion of the Arts: Partnership Agreements	962	535
	Total National Foundation on the Arts and the Humanities	962	535
	National Science Foundation		
47.076	Education and Human Resources	178	—
	Total National Science Foundation	178	—
	U.S. Department of Veterans Affairs		
64.005	Grants to States for Construction of State Home Facilities	3,570	—
64.024	VA Homeless Providers Grant and Per Diem Program	14,229	—
64.101	Burial Expense Allowance for Veterans	495	—
64.125	Vocational and Educational Counseling for Servicemembers and Veterans	542	—
64.203	State Cemetery Grants	2,843	—
	Total U.S. Department of Veterans Affairs	21,679	—
	U.S. Environmental Protection Agency		
66.001	Air Pollution Control Program Support	8	—
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to Clean Air Act	57	—
66.419	Water Pollution Control: State and Interstate Program Support	43	—
66.454	Water Quality Management Planning	711	380
66.456	National Estuary Program	116	73
66.458	Capitalization Grants for State Revolving Funds	49,845	47,582
66.460	Nonpoint Source Implementation Grants	54	50
66.461	Wetlands Program Development Grants	52	—
66.463	Water Quality Cooperative Agreements	20	—
66.463	Third Party – New England Water Pollution Commission	10	—
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	14	—
66.468	Capitalization Grants for Drinking Water State Revolving Fund	16,399	13,513
66.470	Hardship Grant for Rural Communities	12	—
66.471	State Grants to Reimburse Operators of Small Water Systems for Training & Certification	67	—
66.472	Beach Monitoring & Notification Program Implementation Grant	44	38
66.474	Water Protection Grants to the States	4	—
66.500	Environmental Protection - Consolidated Research	46	—
66.501	Air Pollution Control Research	18	—
66.505	Water Pollution Control: Research, Development and Demonstration	9	—
66.605	Performance Partnership Grants	15,590	1,315
66.606	Surveys, Studies, Investigations, and Special Purpose Grants	385	11
66.607	Training & Fellowship for Environmental Protection Agency	(1)	(1)
66.608	State Information Grant	327	308

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003
(Amounts in thousands)

Federal CFDA number	Federal agency/program title	Amounts	
		Expenditures	Passed through to subrecipients
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	\$ 59	—
66.706	Enhancement Grants for State Asbestos Programs	66	—
66.707	TSCA Title IV State Lead Grants: Certification of Lead-Based Paint Professionals	392	106
66.709	Capacity Building Grants and Cooperative Agreements For States	59	—
66.714	Pesticides Environmental Stewardship - Regional Grants	10	10
66.801	Hazardous Waste Management State Program Support	237	—
66.802	Superfund State, Political Subdivision, and Indian Tribe Site: Specific Cooperative Agreements	4,267	—
66.805	Leaking Underground Storage Tank Trust Fund Program	777	—
66.808	Solid Waste Management Assistance	114	—
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	441	—
	Total Environmental Protection Agency	90,252	63,385
	U.S. Department of Energy		
81.041	State Energy Conservation	2,609	397
81.042	Weatherization Assistance for Low-Income Persons	4,030	3,545
81.079	Regional Biomass Energy Program	13	—
81.086	Conservation Research and Development	62	62
81.119	State Energy Program Special Projects	37	37
81.ADM	Administration Costs Consolidations	206	—
81.PRF	Petroleum Overcharge Reimbursement Funds	194	179
	Total U.S. Department of Energy	7,151	4,220
	Federal Emergency Management Agency		
83.010	National Fire Academy Educational Program	16	—
83.105	Community Assistance Program: State Support Services Element	124	—
83.536	Flood Mitigation Assistance	1,193	1,163
83.539	Crisis Counseling	444	—
83.544	Public Assistance Grants	51,594	—
83.547	First Responder Counter-Terrorism Training Assistance	29	—
83.548	Hazard Mitigation Grant	1,614	1,614
83.550	National Dam Safety Program	76	—
83.552	Emergency Management Performance Grants	3,730	1,686
83.562	State and Local All Hazards Emergency Operations Planning	420	420
83.564	Citizen Corps	20	—
83.UNA	Pre-Disaster Mitigation	45	—
	Total Federal Emergency Management Agency	59,305	4,883
	U.S. Department of Education		
84.002	Adult Education: State Grant Program	16,051	13,543
84.010	Title I Grants to Local Educational Agencies	250,826	248,425
84.011	Migrant Education: Basic State Grant Program	1,931	1,812
84.013	Chapter 1 Program for Neglected and Delinquent Children	1,411	(29)
	<i>Special Education Cluster:</i>		
84.027	Special Education: Grants to States	240,231	227,108
84.173	Special Education – Preschool Grants	11,524	10,882
	Total Special Education Cluster	251,755	237,990
84.032	Federal Family Education Loans	878,481	—
84.048	Vocational Education: Basic Grants to States	24,397	21,304
84.069	Leveraging Educational Assistance Partnership	2,531	—
84.126	Rehabilitation Services: Vocational Rehabilitation Grants to States	40,785	15,613
84.162	Immigrant Education	171	137
84.169	Independent Living: State Grants	565	565
84.177	Rehabilitation Services: Independent Living Services for Older Individuals Who are Blind	919	919
84.181	Special Education: Grants for Infants and Families with Disabilities	11,572	10,627
84.185	Robert C. Byrd Honors Scholarship Program	1,089	—
84.186	Safe and Drug-Free Schools and Communities: State Grants	10,966	9,389

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003
(Amounts in thousands)

Federal CFDA number	Federal agency/program title	Amounts	
		Expenditures	Passed through to subrecipients
84.187	Supported Employment Services for Individuals with Severe Disabilities	\$ 1,007	1,007
84.194	Bilingual Education Support Services	96	—
84.196	Education for Homeless Children and Youth	671	566
84.213	Even Start: State Educational Agencies	3,967	3,782
84.215	Fund for the Improvement of Education	236	—
84.224	State Grants for Assistive Technology	442	439
84.243	Tech-Prep Education	2,135	1,586
84.265	Rehabilitation Training: State Vocational Rehabilitation Unit In-service Training	84	—
84.276	Goals 2000: State and Local Education Systemic Improvement Grants	918	528
84.281	Eisenhower Professional Development State Grants	1,611	1,246
84.282	Charter Schools	2,635	2,494
84.287	Twenty-First Century Community Learning Centers	247	25
84.298	Innovative Education Program Strategies	10,720	9,403
84.318	Education Technology State Grants	9,024	8,584
84.323	Special Ed-ST Prog Improvement Grants for Child W/Disabilities	275	—
84.326	Special Education: Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	345	—
84.330	Advanced Placement Incentive Program	171	—
84.331	Grants to States for Incarcerated Youth Offenders	246	—
84.332	Comprehensive School Reform Demonstration	7,488	6,996
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	2,080	1,861
84.336	Teacher Quality Enhancement Grants	26	—
84.340	Class Size Reduction	4,541	4,541
84.346	Occupational and Employment Information State Grants	155	—
84.348	Title I Accountability Grant	5,818	5,818
84.352	School Renovation Grants	8,277	8,274
84.357	Reading First State Program	93	—
84.358	Rural Education Achievement Program (REAP)	62	59
84.365	English Language Acquisition: State Formula Grant Program	10,041	9,982
84.367	Improving Teacher Quality State Grants	55,273	54,409
84.369	Grants for State Assessments & Related Activities	3,386	—
84.CON	Contractual Agreements-National Assess Education Program	76	—
	Total U.S. Department of Education	1,625,596	681,895
	U.S. Department of Health and Human Services		
93.003	Public Health and Social Services Emergency Fund	4,766	4,439
93.006	State & Territorial & technical Assistance Capacity Development Minority HIV/AIDS Demo Program	3	—
93.041	Special Programs for the Aging: Title VII, Chapter 3: Programs for Prevention of Elder Abuse, Neglect, and Exploitation	169	—
93.042	Special Programs for the Aging: Title VII, Chapter 2: Long Term Care Ombudsman Services for Older Individuals	339	38
93.043	Special Programs for the Aging: Title III, Part F: Disease Prevention and Health Promotion Services	823	818
	<i>Aging Cluster:</i>		
93.044	Special Programs for the Aging: Title III, Part B: Grants for Supportive Services and Senior Centers	12,420	12,406
93.045	Special Programs for the Aging: Title III, Part C: Nutrition Services	19,367	17,790
	Total Aging Cluster	31,787	30,196
93.048	Special Programs for the Aging: Title IV & Title II: Discretionary Projects	(4)	—
93.052	Nation Caregiver Support Program	4,563	3,953
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	1,624	1,473
93.110	Maternal and Child Health Federal Consolidated Programs	92	—
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	6,026	4,543
93.116	Project Grants and Cooperative Agreements for Tuberculosis (nonmonetary)	247	—
93.127	Emergency Medical Services for Children	36	—
93.130	Primary Care Services: Resource Coordination and Development-Primary Care Offices	227	114
93.136	Injury Prevention & Control Research & State & Community Based Programs	338	330

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Schedule of Expenditures of Federal Awards
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(Amounts in thousands)

Federal CFDA number	Federal agency/program title	Amounts	
		Expenditures	Passed through to subrecipients
93.142	NIEHS Hazardous Waste Worker Health and Safety Training	\$ 100	—
93.150	Projects for Assistance in Transition from Homelessness	1,414	1,361
93.153	Coordinated Services and Access to Research for Children, Youth, Women, and Families	1,731	1,578
93.161	Health Program for Toxic Substances and Disease Registry	180	—
93.165	Grants for State Loan Repayment	140	—
93.184	Disabilities Prevention	49	47
93.197	Childhood Lead Poisoning Prevention Projects: State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	747	500
93.206	Human Health Studies-Applied Research & Development	7	—
93.217	Family Planning Services	3,593	3,149
93.230	Consolidated Knowledge Development & Application Program	525	225
93.234	Traumatic Brain Injury: State Demonstration Grant Program	260	257
93.235	Abstinence Education	841	747
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	448	—
93.239	Policy Research and Evaluations Grants	110	—
93.240	State Capacity Building	535	—
93.242	Mental Health Research Grants-Penn State University Agreement	48	—
93.251	Universal Newborn Hearing Screening	32	7
93.256	State Planning Grant-Healthcare Access for the Uninsured	232	—
93.262	Occupational Safety and Health Research Grants	119	—
93.268	Immunization Grants (Childhood)	5,990	1,908
93.268	Immunization Grants (Vaccines) (nonmonetary)	22,767	22,767
93.283	Centers for Disease Control and Prevention: Investigations and Technical Assistance	9,717	3,536
93.283	Centers for Disease Control and Prevention: Investigations and Tech. Assist.- Third Party -Association of Teachers of Preventative Medicine	68	—
93.399	Cancer Control	51	—
93.399	Third Party – Sloan Kettering Cancer Center	111	—
93.551	Abandoned Infants	477	477
93.556	Promoting Safe and Stable Families	6,611	6,611
93.558	Temporary Assistance for Needy Families	483,770	390,904
93.563	Child Support Enforcement	105,884	35,805
93.566	Refugee and Entrant Assistance: State Administered Programs	2,452	2,109
93.568	Low-Income Home Energy Assistance	83,221	49,436
93.569	Community Services Block Grant	17,956	17,139
93.570	Community Services Block Grant Discretionary Awards	19	14
93.571	Community Services Block Grant Discretionary Awards: Community Food and Nutrition	115	115
	<i>Child Care Cluster:</i>		
93.575	Child Care and Development Block Grant	37,086	36,669
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	82,257	80,924
	Total Child Care Cluster	119,343	117,593
93.576	Refugee and Entrant Assistance: Discretionary Grants	1,032	882
93.584	Refugee and Entrant Assistance: Targeted Assistance Program	273	273
93.585	Empowerment Zones Program	1,917	1,865
93.586	State Court Improvement Program	104	—
93.590	Community-Based Family Resource & Support Grants	743	740
93.597	Grants to States for Access and Visitation Programs	223	—
93.600	Head Start	169	(49)
93.601	Child Support Enforcement, Demonstration, and Special Projects	50	—
93.603	Adoption Incentive Program – IV-E	332	291
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,343	520
93.631	Developmental Disabilities Projects of National Significance	160	67
93.643	Children's Justice Grants to States	424	424
93.645	Child Welfare Services: State Grants	4,677	—
93.652	Adoption Opportunities	533	522
93.658	Foster Care: Title IV-E	65,452	10,547
93.659	Adoption Assistance	20,343	—

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003
(Amounts in thousands)

Federal CFDA number	Federal agency/program title	Amounts	
		Expenditures	Passed through to subrecipients
93.667	Social Services Block Grant	\$ 65,027	25,064
93.669	Child Abuse and Neglect State Grants	628	628
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters: Grants to States and Indian Tribes	3,144	3,144
93.674	Chafee Foster Care Independent Living	2,304	2,279
93.767	State Children's Insurance Program	316,235	305,560
93.768	Medicaid Infrastructure Grants – To Support the Competitive Employment of People With Disabilities	400	257
	<i>Medicaid Cluster:</i>		
93.775	State Medicaid Fraud Control Units	1,865	—
93.777	State Survey and Certification of Health Care Providers and Suppliers	8,157	—
93.778	Medical Assistance Program	4,291,662	337,699
	Total Medicaid Cluster	4,301,684	337,699
93.779	Centers For Medicare and Medicaid Services Research, Demonstrations, and Evaluations	431	117
93.913	Grants to States for Operation of Offices of Rural Health	150	150
93.914	HIV Emergency Relief Project Grants-Third Party-Philadelphia City Aids	2,621	—
93.917	HIV Care Formula Grants	58,993	56,264
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	1,471	1,252
93.926	Healthy Start Initiative	55	53
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	614	—
93.940	HIV Prevention Activities: Health Department Based	14,034	8,547
93.941	HIV Demonstration, Research, Public, and Professional Education Projects	1,019	885
93.942	Research, Treatment, and Education Programs on Lyme Disease in the United States	479	462
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome and Human Immunodeficiency Virus Infection in Selected Population Groups	66	46
93.944	Human Immunodeficiency Virus Acquired Immunodeficiency Virus Syndrome Surveillance	4,118	305
93.945	Assistance Programs for Chronic Disease Prevention and Control	8	—
93.947	Tuberculosis Demo, Research, Public, and Professional Education	(2)	(2)
93.958	Block Grants for Community Mental Health Services	12,324	11,948
93.959	Block Grants for Prevention and Treatment of Substance Abuse	43,452	36,794
93.977	Preventive Health Services: Sexually Transmitted Diseases Control Grants	3,001	288
93.977	Preventative Health Services Sexually Transmitted Diseases Control Grants (nonmonetary)	348	—
93.982	Mental Health Disaster Assistance & Emergency Mental Health	1,915	1,514
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	271	39
93.991	Preventive Health and Health Services Block Grant	4,212	1,888
93.994	Maternal and Child Health Services Block Grant to the States	11,807	6,286
93.CON	Contractual Agreement-Vital Statistics Grant	955	—
93.CON	Contractual Agreement-FDA Food Inspection Program	221	—
93.CON	Contractual Agreement-Clinical Laboratory Improvement Amendments Program	437	—
93.CON	Contractual Agreement-Surveillance, Epidemiology, and EMD Results	420	—
93.UNA	Federal Civil Monetary Penalties	44	15
93.UNA	Olmstead Grant	(19)	—
	Total U.S. Department of Health and Human Services	5,871,341	1,519,753
	Corporation for National and Community Service		
94.003	State Commissions	278	—
94.004	Learn and Serve America: School and Community Based Programs	518	401
94.006	AmeriCorps	2,625	2,104
94.007	Planning & Program Development Grants	114	—
94.009	Training & Technical Assistance	139	—
	<i>Foster Grandparents/Senior Companion Cluster:</i>		
94.011	Foster Grandparent Program	1,275	—
	Total Corporation for National and Community Service	4,949	2,505

STATE OF NEW JERSEY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003
(Amounts in thousands)

Federal CFDA number	Federal agency/program title	Amounts	
		Expenditures	Passed through to subrecipients
	Social Security Administration		
	<i>Disability Insurance/SSI Cluster:</i>		
96.001	Social Security: Disability Insurance	\$ 43,117	400
	Total Social Security Administration	43,117	400
	Totals	\$ 12,770,421	2,757,554

See accompanying notes to the schedule of expenditures of federal awards.

STATE OF NEW JERSEY

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

(1) Basis of Presentation

(a) *Reporting Entity*

The Schedule of Expenditures of Federal Awards includes all federal award programs administered by the State of New Jersey except for component units for the fiscal year ended June 30, 2003. The State of New Jersey financial reporting entity is described in note 1B of the State's general-purpose financial statements. Accordingly, the accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the federal awards programs administered by the State of New Jersey (the State), as defined above, for the year ended June 30, 2003.

(b) *Federal Family Education Loan Program*

The State of New Jersey administers the Federal Family Education Loan Program (FFELP). During the fiscal year ended June 30, 2003 new loans guaranteed amounted to approximately \$819,289,000, loans repurchased during the year amounted to approximately \$43,369,000, and administrative costs amounted to approximately \$15,823,000 and are included in the accompanying schedule. The principal outstanding for guaranteed loans at June 30, 2003 was \$3,026,316,000. The loans guaranteed under the FFELP in previous years are not included in the accompanying Schedule.

(c) *Federal Awards Programs Numbers*

Certain programs presented in the accompanying Schedule includes federal awards programs that have not been assigned a Catalog of Federal Domestic Assistance (CFDA) number are reported by Federal Agency and titled "UNA". Programs under direct contract are titled "CON". For the Administration Costs Consolidations and the Petroleum Overcharge Reimbursement Funds under the U.S. Department of Energy are labeled "ADM" and "PRF", respectively.

(2) Basis of Accounting

(a) *General*

The accompanying Schedule includes the Federal grant activity of the State of New Jersey and is presented on the cash basis of accounting, which is based on cash disbursements for the period.

(b) *Highway Planning and Construction Program*

The amount presented in the Highway Planning and Construction Program (20.205) represents the summary of billings from the Department of Transportation to the Federal Government which include expenses currently determined to be chargeable to the Federal program.

(c) *Nonmonetary Federal Awards*

The amounts identified in the Schedule as surplus foods, food stamps, commodities, and vaccines represent the dollar value of items consumed.

(3) Matching Costs

Matching costs, i.e., the non-Federal share of certain program costs, are not included in the accompanying Schedule.

STATE OF NEW JERSEY

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

(4) Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule which is prepared on the cash basis explained in note 2.

(5) Contingencies

The State of New Jersey's participation in federal funding is subject to review by the U.S. Department of Health and Human Services (HHS) as cognizant agency. HHS coordinates the review of findings and questioned costs with other Federal agencies. HHS and the other Federal agencies determine the ultimate allowability of expenditures charged to the federal grants. The State of New Jersey is unable to determine the amounts, if any, that Federal agencies will disallow or the effect on the amounts associated with these grants. Management is of the opinion that a liability, if any, resulting from any financial or compliance audits would not have a material adverse effect on the Schedule of Expenditures of Federal Awards.

The State of New Jersey is a party to various legal actions arising in the ordinary course of business. While it is not possible at this time to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the Schedule of Expenditures of Federal Awards.



KPMG LLP

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**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

The Governor
State of New Jersey:

Compliance

We have audited the compliance of the State of New Jersey (the State) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended June 30, 2003. The State's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

The Schedule of Expenditures of Federal Awards and our audit described below does not include expenditures of federal awards for those agencies determined to be component units of the State of New Jersey for financial statement purposes. Each of these agencies has their own independent audits in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

Qualifications

As identified in the following table and described in the accompanying schedule of findings and questioned costs, the State did not comply with compliance requirements listed below that are applicable to its major federal programs listed below. Compliance with such requirements is necessary, in our opinion, for the State of New Jersey to comply with the requirements applicable to the identified major federal programs.

State Administering Agency	Federal program	Compliance requirement	Finding number
Department of Human Services	Temporary Assistance for Needy Families	Eligibility, special tests and provisions and subrecipient monitoring	03-4
Department of Human Services/ The Judiciary	Child Support Enforcement	Reporting	03-7
Department of Human Services	Low-Income Home Energy Assistance	Eligibility	03-8
Department of Human Services	Foster Care – Title-IV-E	Eligibility	03-10
Department of Human Services	Foster Care – Title-IV-E/ Adoption Assistance	Reporting	03-11
Department of Human Services	Adoption Assistance	Eligibility	03-13
Department of Human Services	Medical Assistance Program	Eligibility	03-16
Department of Human Services	Social Services Block Grant	Reporting	03-19
Department of Community Affairs	Community Services Block Grant	Reporting	03-24, 03-25
Department of Law and Public Safety/ Department of Transportation	Public Assistance Grants	Reporting	03-36
Department of Law and Public Safety	Emergency Management Performance Grants	Allowability	03-38
Department of Law and Public Safety	Highway Safety Cluster	Allowability	03-42

In our opinion, except for the noncompliance described in the preceding table, the State of New Jersey complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items: 03-1, 03-2, 03-3, 03-5, 03-6, 03-12, 03-15, 03-17, 03-18, 03-20, 03-21, 03-22, 03-23, 03-26, 03-27, 03-28, 03-30, 03-31, 03-34, 03-35, 03-37, 03-39, 03-40, 03-41, 03-44, 03-45, 03-46 and 03-47.

Internal Control over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major Federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items: 03-1, 03-2, 03-4, 03-5, 03-7, 03-8, 03-9, 03-10, 03-11, 03-13, 03-14, 03-15, 03-16, 03-17, 03-18, 03-19, 03-20, 03-21, 03-22, 03-23, 03-24, 03-25, 03-27, 03-28, 03-29, 03-30, 03-31, 03-32, 03-33, 03-34, 03-35, 03-36, 03-37, 03-38, 03-39, 03-40, 03-41, 03-42, 03-43, 03-44, 03-45, 03-46 and 03-47.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items: 03-4, 03-5, 03-7, 03-8, 03-10, 03-11, 03-13, 03-16, 03-19, 03-24, 03-25, 03-36, 03-38 and 03-42 to be material weaknesses.

This report is intended solely for the information and use of management of the State of New Jersey, the U.S. Department of Health and Human Services and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 31, 2004

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

(1) Summary of Auditors' Results

Basic Financial Statements

- (a) An unqualified opinion was issued by the State Auditor, State of New Jersey, on the basic financial statements of the State of New Jersey as of and for the year ended June 30, 2003.
- (b) The audit by the State Auditor, State of New Jersey disclosed no material weaknesses and no reportable conditions were reported in connection with the basic financial statements of the State of New Jersey as of and for the year ended June 30, 2003.
- (c) The audit by the State Auditor, State of New Jersey disclosed no instances of noncompliance which are material to the basic financial statements of the State of New Jersey as of and for the year ended June 30, 2003.

Single Audit

- (d) This audit of Federal financial assistance disclosed material weaknesses and reportable conditions which were reported in connection with major Federal programs of the State of New Jersey for the year ended June 30, 2003.
- (e) A qualified opinion was issued on the State of New Jersey's compliance with its major Federal programs for the year ended June 30, 2003, for the Temporary Assistance for Needy Families, Child Support Enforcement, Low-Income Home Energy Assistance, Foster Care – Title IV-E, Adoption Assistance, Medical Assistance Program, Social Services Block Grant, Community Services Block Grant, Public Assistance Grants, Emergency Management Performance Grants and Highway Safety Cluster.
- (f) There were audit findings which are required to be reported under Section 510(a) of OMB Circular A-133 for the year ended June 30, 2003.
- (g) The major Federal programs of the State of New Jersey for the year ended June 30, 2003 were as follows:

U.S. Department of Agriculture:

- Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)
- Child and Adult Care Food Program (10.558)

U.S. Department of Housing and Urban Development:

- Section 8 Cluster (14.871)

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

U.S. Department of Labor:

- Employment Services Cluster (17.207, 17.801, 17.804)
- Unemployment Insurance (17.225)
- Workforce Investment Act Cluster (17.255, 17.258, 17.260)

U.S. Department of Energy:

- Weatherization Assistance for Low-Income Persons (81.042)

Federal Emergency Management Agency:

- Public Assistance Grants (83.544)
- Emergency Management Performance Grants (83.552)

U.S. Department of Education:

- Title I Grants to Local Educational Agencies (84.010)
- Federal Family Education Loans (84.032)
- Rehabilitation Services: Vocational Rehabilitation Grants to States (84.126)
- School Renovation Grants (84.352)
- Improving Teacher Quality State Grants (84.367)

U.S. Department of Health and Human Services:

- Temporary Assistance for Needy Families (93.558)
- Child Support Enforcement (93.563)
- Low-Income Home Energy Assistance (93.568)
- Community Services Block Grant (93.569)
- Foster Care-Title IV-E (93.658)
- Adoption Assistance (93.659)
- Social Services Block Grant (93.667)
- State Children's Insurance Program (93.767)
- Aging Cluster (93.044, 93.045)
- Medicaid Cluster (93.775, 93.777, 93.778)

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

U.S. Department of Transportation:

- Highway Planning and Construction Cluster (20.205)
- Highway Safety Cluster (20.600, 20.601, 20.604)

U.S. Department of Treasury:

- Jobs and Growth Tax Relief Act (21.UNA)

U.S. Department of Justice:

- State Criminal Alien Assistance Program (16.606)

(h) The dollar threshold used to distinguish between type A and type B programs was \$30,000,000 for Federal awards for the year ended June 30, 2003.

(i) The State of New Jersey did not qualify as a low risk auditee for the year ended June 30, 2003.

(2) Findings Related to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards*:

None were reported by the State Auditor, State of New Jersey.

(3) Findings and Questioned Costs Relating to Federal Awards:

See appendix of findings items 03-1 to 03-47.

APPENDIX OF FINDINGS

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Rehabilitation Services: Vocational Rehabilitation Grants to States (84.126)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Education

Finding: 03-1

Criteria

States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Condition

For two of thirty procurements, the Department did not perform price competition procedures.

A similar finding was noted in the 2002 prior year single audit report as item 02-1.

Cause

Case workers procured items without following proper procurement procedures.

Effect

The purchases made may not have been priced competitively.

Recommendation

We recommend that the Department perform price competition procedures, as described in Procurement Circular 00-13-DPP, on all procurements.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

The amount expended for the two procurements was \$12,169.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Rehabilitation Services: Vocational Rehabilitation Grants to States (84.126)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Education

Finding: 03-2

Criteria

An individual is eligible for VR services if the individual (1) has a physical or mental impairment that, for the individual, constitutes or results in a substantial impediment to employment; (2) can benefit in terms of an employment outcome from VR services; and (3) requires VR services to prepare for, secure, retain, or regain employment (Section 102(a)(1) of the Act (29 USC 722(a)(1))).

An individual who is a beneficiary of Social Security Disability Insurance or a recipient of Supplemental Security Income is presumed to be eligible for VR services (provided that the individual intends to achieve an employment outcome consistent with the unique strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice of the individual) unless the State VR Agency can demonstrate by clear and convincing evidence that such individual is incapable of benefiting in terms of an employment outcome from VR services due to the severity of the disability of the individual (Section 102(a)(3) of the Act (29 USC 722(a)(3))).

An individual is presumed to be able to benefit in terms of an employment outcome from VR services unless the State VR Agency can demonstrate by clear and convincing evidence that the individual is incapable of benefiting in terms of an employment outcome from VR services due to the severity of the individual's disability. This determination must be made through the use of trial work experiences with appropriate supports provided by the State VR Agency, except under limited circumstances when the individual can not take advantage of such experiences (Section 102(a)(2) of the Act (29 USC 722(a)(2))).

The State VR Agency must determine whether an individual is eligible for VR services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless (Section 102(a)(6) of the Act (29 USC 722(a)(6))):

1. Exceptional and unforeseen circumstances beyond the control of the State VR agency preclude making an eligibility determination within 60 days and the State agency and the individual agree to a specific extension of time; or
2. The State VR Agency is exploring an individual's abilities, capabilities, and capacity to perform in work situations through trial work experiences in order to determine the eligibility of the individual or the existence of clear and convincing evidence that the individual is incapable of benefiting in terms of an employment outcome from VR services.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

The State may choose to consider the financial need of eligible individuals or individuals who are receiving services during a trial work experience or an extended evaluation for the purposes of determining the extent of their participation in the cost of VR services. The State may not consider financial need when providing services described in 34 CFR 361.54(b)(3). If the State indicates in its State Plan that it will use financial need tests for one or more types of VR services, it must apply such tests in accordance with its written policies uniformly to all individuals under similar circumstances. The policies may require different levels of need for different geographic regions in the State, but must be applied uniformly to all individuals within each geographic region (34 CFR section 361.54).

Condition

Of the thirty clients selected for testwork, the Commission for the Blind and Visually Impaired (CBVI) was unable to provide documentation verifying the eligibility of four clients.

Cause

The Department misplaced some files during relocation.

Effect

Payments may have been made on behalf of ineligible clients for services received during State fiscal year 2003.

Recommendation

We recommend that the Department ensure that the required eligibility documentation is maintained.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

Expenditures for client services provided to the four clients for the fiscal year ended June 30, 2003 were \$22,294.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Temporary Assistance for Needy Families (93.558)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-3

Criteria

TANF Financial Report (OMB Control No. 0970-0199) - States are required to submit this report quarterly in lieu of the SF-269, *Financial Status Report*. This report replaces the ACF-196 (OMB Control No. 0970-0165). Each State files quarterly expenditure data on the State's use of Federal TANF funds, State TANF expenditures, and State expenditures of MOE funds in separate State programs. If a State is expending Federal TANF funds received in prior fiscal years, it must file a separate quarterly TANF Financial Report for each fiscal year that provides information on the expenditures of that year's TANF funds. Territories report their expenditures and other fiscal data on the *Territorial Financial Report* (45 CFR section 265.3(c) and Appendix D).

Condition

The TANF Financial Report for federal fiscal year 2002, submitted for the quarter ending September 30, 2002, was submitted to the Administration for Children and Families 47 days past the due date. The TANF Financial Report for federal fiscal year 2002, submitted for the quarter ending December 31, 2002, was submitted to the Administration for Children and Families 136 days past the due date. The TANF Financial Report for federal fiscal year 2002, submitted for the quarter ending March 31, 2003, was submitted to the Administration for Children and Families 46 days past the due date. The TANF Financial Report for federal fiscal year 2002, submitted for the quarter ending June 30, 2003, was submitted to the Administration for Children and Families 54 days past the due date.

A similar finding was noted in the 2002 prior year single audit report as item 02-4.

Cause

Late submission of the reports is due to the late submission of expenditure reports from various State agencies and counties to the Division of Family Development, which requires the expenditures of other agencies in order to accurately report TANF activity.

Effect

The reports were not submitted to the federal government within the required timeframe.

Questioned Costs

None

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Temporary Assistance for Needy Families (93.558)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-4

Criteria

Subrecipient Monitoring:

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

During-the-Award Monitoring

Following are example factors which may affect the nature, timing, and extent of during-the-award monitoring:

- *Program complexity* - Programs with complex compliance requirements have a higher risk of non-compliance.
- *Percentage passed through* - The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.
- *Amount of awards* - Larger dollar awards are of greater risk.
- *Subrecipient risk* - Subrecipients may be evaluated as higher risk or lower risk, using techniques such as site visits and closer monitoring for new subrecipients and subrecipients that are otherwise considered higher risk (e.g., based on past history of non-compliance, new personnel, new or substantially changed systems).

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Monitoring activities normally occur through-out the year and may take various forms, such as:

- *Reporting* - Reviewing financial and performance reports submitted by the subrecipient.
- *Site Visits* - Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Contact* - Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Agreed-Upon Procedures Engagements

A pass-through entity may arrange for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to areas of greatest risk. The costs of agreed-upon procedures engagements is an allowable cost to the pass-through entity if the agreed-upon procedures are performed for subrecipients below the A-133 threshold for audit (currently at \$300,000) for the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, earmarking; and reporting (OMB Circular A-133 ('____.230(b)(2)).

The requirements for subrecipient monitoring are contained in the 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), OMB Circular A-133 ('____.225 and '____.400(d)), A-102 Common Rule ('____.37 and '____.40(a)), and OMB Circular A-110 ('____.51(a)), Federal awarding agency program regulations, and the terms and conditions of the award.

Eligibility:

The State or Tribal Plan provides the specifics on how eligibility is determined in each State or tribal service area. Plan and eligibility requirements must comply with the following Federal requirements:

a. Federal Only, Commingled Federal/State, Segregated State, and Separate State Program

To be eligible for TANF “assistance” as defined in 45 CFR section 260.31 or any MOE-funded benefits, services, or “assistance,” a family must include a minor child who lives with a parent or other adult caretaker relative. The child must be less than 18 years old, or, if a full-time student in a secondary school (or the equivalent level of vocational or technical training), less than 19 years old. (With respect to segregated or separate State MOE funds, the State could use the definition for minor child given in section 419(2) of the Act or some other definition applicable in State law provided the State can articulate a rationale basis for the age they choose.) A family must also be “needy,” i.e., financially eligible according to the State’s applicable income and resource criteria (42 USC 602, 602(a)(1)(B)(iii), 42 USC 609(a)(7)(B)(IV), 608(a)(1), 619(2) and 45 CFR section 263.2(b)(2)).

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

b. Federal Only and Commingled Federal/State

- (1) Any family that includes an adult or minor child head of household or a spouse of the head of household who has received assistance under any State program funded by Federal TANF funds for 60 months (whether or not consecutive) is ineligible for additional federally funded TANF assistance. However, the State may extend assistance to a family on the basis of hardship, as defined by the State, or if a family member has been battered or subjected to extreme cruelty. In determining the number of months for which the head of household or the spouse of the head of household has received assistance, the State must not count any month during which the adult received the assistance while living in Indian country or in an Alaskan Native Village and the most reliable data available with respect to that month (or a period including that month) indicate at least 50 percent of the adults living in Indian country or in the village were not employed (42 USC 608(a)(7); 45 CFR sections 264.1(a), (b), and (c)).
- (2) A State may not provide assistance to an individual who is under age 18, is unmarried, has a minor child at least 12 weeks old, and has not successfully completed high school or its equivalent unless the individual either participates in education activities directed toward attainment of a high school diploma or its equivalent, or participates in an alternative education or training program approved by the State (42 USC 608(a)(4); 45 CFR section 263.11(b)).
- (3) A State may not provide assistance to an unmarried individual under 18 caring for a child, if the minor parent and child are not residing with a parent, legal guardian, or other adult relative, unless one of the statutory exceptions applies (42 USC 608(a)(5)).
- (4) A State may not provide assistance for a minor child who has been or is expected to be absent from the home for a period of 45 consecutive days or, at the option of the State, such period of not less than 30 and not more than 180 consecutive days unless the State grants a good cause exception, as provided in its State Plan (42 USC 608(a)(10)).
- (5) A State may not provide assistance for an individual who is a parent (or other caretaker relative) of a minor child who fails to notify the State agency of the absence of the minor child from the home, as in paragraph e. immediately above, within five days of the date that it becomes clear to that individual that the child will be absent for the specified period of time (42 USC 608(a)(10)(C)).
- (6) A State may not use funds to provide cash assistance to an individual during the 10-year period that begins on the date the individual is convicted in Federal or State court of having made a fraudulent statement or representation with respect to place of residence in order to simultaneously receive assistance from two or more States under TANF, Title XIX, or the Food Stamp Act of 1977, or benefits in two or more States under the Supplemental Security Income program under Title XVI of the Social Security Act. If the President of the United States grants a pardon with respect to the conduct that was the subject of the conviction, this prohibition will not apply for any month beginning after the date of the pardon (42 USC 608(a)(8)).
- (7) A State may not provide assistance to any individual who is fleeing to avoid prosecution, or custody or confinement after conviction, for a felony or attempt to commit a felony (or in the State of New Jersey, a high misdemeanor), or who is violating a condition of probation or parole imposed under Federal or State law (42 USC 608(a)(9)(A)).

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- (8) Qualified aliens, as defined at 8 USC 1641b, entering the United States on or after August 22, 1996, are not eligible for Federal public benefits, as defined in 8 USC 1611(c), for a period of five years beginning on the date of the alien's entry into the United States, unless they meet an exception at 8 USC 1612(b)(2) or 1613. (If the Federal public benefit meets the specifications in the Attorney General's Order (Order No. 2049-96 published August 30, 1996 at 61 FR 45985; Order No. 2353-2001 published January 16, 2001 at 66 FR 3613), then the State may provide the benefit regardless of immigration status (8 USC 1611 (b)(1)(D)). A State may, at its option, provide Federal public benefits to qualified aliens who entered the United States before August 22, 1996, and, for aliens entering the United States on or after August 22, 1996, after the expiration of the five-year time bar. Non-qualified aliens may not receive Federal public benefits unless one of the exceptions at 8 USC 1612(b)(2) applies (8 USC 1612 and 1613).

c. Federal Only, Commingled Federal/State, Segregated State

- (1) A State shall require, as a condition of providing assistance, that a member of the family assign to the State the rights the family member may have for support from any other person. This assignment does not exceed the amount of assistance provided (42 USC 608(a)(3)).
- (2) An individual convicted under Federal or State law of any offense which is classified as a felony and which involves the possession, use, or distribution of a controlled substance (as defined the Controlled Substances Act (21 USC 802(6)) is ineligible for assistance if the conviction was based on conduct occurring after August 22, 1996. A State shall require each individual applying for assistance under TANF to state in writing whether the individual or any member of their household has been convicted of such a felony involving a controlled substance. However, a State may by law exempt individuals or limit the time period of this prohibition (21 USC 862a).
- (3) If an individual refuses to engage in required work, a State must reduce assistance to the family, at least pro rata, with respect to any period during the month in which the individual so refuses, or may terminate assistance. Any reduction or termination is subject to good cause or other exceptions as the State may establish (42 USC 607(e)(1); 45 CFR sections 261.13 and 261.14(a) and (b)). However, a State may not reduce or terminate assistance based on a refusal to work if the individual is a single custodial parent caring for a child who is less than 6 years of age if the individual can demonstrate the inability (as determined by the State) to obtain child care for one or more of the following reasons: (a) the unavailability of appropriate care within a reasonable distance of the individual's work or home; (b) unavailability or unsuitability of informal child care; or (c) unavailability of appropriate and affordable formal child care (42 USC 607(e)(2); 45 CFR sections 261.15(a), 261.56, and 261.57).

Child Support Non-Cooperation:

If the State agency responsible for administering the State plan approved under Title IV-D of the Social Security Act determines that an individual is not cooperating with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, and reports that information to the State agency responsible for TANF, the State TANF agency must (1) deduct an amount equal to not less than 25 percent from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance. HHS may penalize a State for up to five percent of the SFAG for failure to substantially comply with this required State child support program (42 USC 608(a)(2) and 609(a)(8); 45 CFR sections 264.30 and 264.31).

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Penalty for Refusal to Work:

State agency must reduce or terminate the assistance payable to the family for refusal to work subject to any good cause or other exemptions established by the State. HHS may penalize the State by an amount not less than one percent and not more than five percent of the SFAG for violation of this provision (42 USC 609(a)(14); 45 CFR sections 261.14, 261.16, and 261.54).

Adult Custodial Parent of Child under Six When Child Care Not Available:

If an individual is an adult single custodial parent caring for a child under the age of six, the State may not reduce or terminate assistance for the individual's refusal to engage in required work if the individual demonstrates to the State an inability to obtain needed child care based upon the following reasons: (a) unavailability of appropriate child care within a reasonable distance from the individual's home or work site; (b) unavailability or unsuitability of informal child care by a relative or under other arrangements; and (c) unavailability of appropriate and affordable formal child care arrangements. The determination of inability to find child care is made by the State. HHS may penalize a State for up to five percent of the SFAG for violation of this provision (42 USC 607(e)(2) and 609(a)(11); 45 CFR sections 261.15, 261.56, and 261.57).

Condition

Historically, the Quality Control Unit (QCU) performed reviews of individual cases, on a sample basis, for each of the 21 County Welfare Agencies (CWAs) to determine if the CWAs are following federal requirements to determine eligibility for individuals receiving TANF funds and adjusting TANF payments to individuals for child support non-cooperation, penalty for refusal to work, or adult custodial parent of child under six when child care is not available. During fiscal year 2003, the QCU did not review any individual cases or implement any other monitoring procedures to determine if the CWAs are following federal requirements in determining eligibility for individuals receiving TANF funds, or adjusting TANF payments to individuals for child support non-cooperation, penalty for refusal to work, or adult custodial parent of child under six when child care is not available.

The prior year single audit reports for 2002, 2001 and 2000 included items 02-2, 01-3 and 00-12, respectively, which identified the lack of a system in place to monitor CWA responses and perform follow-up procedures to ensure corrective action had been taken. Since the QCU did not review any individual cases, the Department has not completed any corrective action on the prior year findings.

Cause

Due to recurring deficiencies in another federal program, the Department chose to devote the Quality Control Unit's efforts to monitoring cases of the other program.

Effect

Payments to ineligible individuals or overpayments or underpayments to eligible individuals receiving TANF benefits may occur.

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Recommendation

We recommend that the Department reinstate the QCU monitoring procedures or implement alternative monitoring procedures to ensure that the CWAs are following federal requirements in awarding TANF funds to individuals.

Related Noncompliance

Based on the above, the Department was not in compliance with this requirement.

Questioned Costs

Cannot be determined.

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Temporary Assistance for Needy Families (93.558)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-5

Criteria

Form ACF 209, *SSP-MOE Data Report (OMB Control No. 0970-0199)* – This report is submitted quarterly beginning with the first quarter of FY 2000. A State may postpone the due date for submittal of the data until September 30, 2000, if it demonstrates that its failure to submit the data timely was due to Year 2000 compliance efforts (45 CFR section 265.3(d) and Appendices E, F, and G).

Key Line Items – The following line items contain critical information.

Section One – Family-Level Data

Item 9 Type of Family for Work Participation

Item 15 Receives Subsidized Child Care

Section One – Person-Level Data

Item 28 Date of Birth

Item 34 Relationship to Head-of-Household

Item 41 Work Participation Status

Section One – Adult Work Participation Activities

Items 42-54 Work Participation Activities

Section Three – Active Cases

Item 3 Total Number of SSP-MOE Families

Condition

The number of hours for Work Participation Activities of one of thirty cases tested from the SSP-MOE Data Report for the quarter ended June 30, 2003 did not agree to the underlying data in the OMEGA system which resulted in an incorrect report submission.

Cause

The code for the month of June 2003 was incorrectly computing the values for cases with two adults involved in certain activity types, causing the values to be doubled.

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Effect

The number of hours for the Work Participation Activities reported in the SSP-MOE Data Report is not supported by the State's underlying programmatic records.

Recommendation

We recommend that the Department implement system safeguards to ensure the program code captures the data correctly to be submitted to the federal government.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

None

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Child Support Enforcement (93.563)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-6

Criteria

The State is required to submit the OCSE 396A Child Support Enforcement Program Quarterly Report of Expenditures and Estimates (*OMB No. 0970-0181*).

Condition

Of the four quarterly OCSE 396A reports (Parts 1 and 2), due during fiscal year 2003, all four reports were submitted fifty-six to fifty-eight days late.

A similar finding was included in the 2002 prior year single audit report as item 02-7.

Cause

These reports were not submitted within the required time frames due to late submission of the supporting documentation required in preparing the reports.

Effect

Reports not submitted within the required timeframes.

Questioned Costs

None

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Child Support Enforcement (93.563)

State Agency: Department of Human Services
The Judiciary

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-7

Criteria

The State is required to submit the OCSE 34A Child Support Enforcement Program Quarterly Report of Collections (OMB No. 0970-0181).

Condition

The information used to compile the OCSE 34A Child Support Enforcement Program Quarterly Report of Collections is collected from the Automated Child Support Enforcement (ACSES) system. The OCSE 34A report is submitted electronically and supporting documentation is only maintained for 'total collections received during the quarter' (line two), 'collections forwarded to other states' (line five) and 'total collections distributed' (line eight).

Supporting Documentation for OCSE 34A Report

As part of our audit we requested the Department provide the supporting documentation for the quarterly OCSE 34A report for the period ended June 30, 2003. Supporting documentation could only be provided for line five and eight. No other supporting documentation for the OCSE 34A report could be provided to perform testwork on the OCSE 34A report, for the quarter ended June 30, 2003.

Reconciliation of Child Support Bank Accounts to ACSES System

As alternative procedures we requested the daily reconciliations of the amounts posted to the child support bank accounts to the New Jersey Comprehensive Financial System (NJCFIS) for the quarter ended June 30, 2003 and compared the amounts to the quarterly OCSE 34A report for the period ended June 30, 2003. The child support bank accounts and the ACSES system process activity for IV-D, non IV-D, and alimony, of which, certain of this activity is not reported on the OCSE 34A report. Our testwork noted the following unexplained differences in the amounts reported per the OCSE 34A report and the child support activity posted to the bank accounts during the quarter ended June 30, 2003:

	Per Bank accounts	Per OCSE 34A	Difference
Collections (line 2)	\$ 254,390,611	232,084,389	22,306,222
Disbursements (line 8)	250,849,435	211,256,423	39,593,012

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The State does not have procedures in place to perform a reconciliation of the collections and distributions recorded in the ACSES system to the amounts processed through the child support bank accounts on a routine basis.

A similar finding was included in the 2002, 2001, and 2000 prior year single audit reports as items 02-6, 01-6, and 00-30, respectively.

Cause

The report is electronically generated and only supporting information for certain line items is maintained. For fiscal year ended June 30, 2003, the Department generated supporting documentation on a compact disk for line five and eight.

Effect

The amounts reported for certain line items could not be supported by the Department.

Recommendation

We recommend that the Department continue to implement procedures to maintain supporting documentation for the OCSE 34A report and perform on a routine basis a reconciliation between the child support bank accounts and the ACSES system.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

Cannot be determined.

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Low-Income Home Energy Assistance (93.568)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-8

Criteria

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

During-the-Award Monitoring

Following are example factors that may affect the nature, timing, and extent of during-the-award monitoring:

- *Program complexity* - Programs with complex compliance requirements have a higher risk of non-compliance.
- *Percentage passed through* - The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.
- *Amount of awards* - Larger dollar awards are of greater risk.
- *Subrecipient risk* - Subrecipients may be evaluated as higher risk or lower risk, using techniques such as site visits and closer monitoring for new subrecipients and subrecipients that are otherwise considered higher risk (e.g., based on past history of non-compliance, new personnel, new or substantially changed systems).

Monitoring activities normally occur through-out the year and may take various forms, such as:

- *Reporting* - Reviewing financial and performance reports submitted by the subrecipient.

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- *Site Visits* - Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Contact* - Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Agreed-Upon Procedures Engagements

A pass-through entity may arrange for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to areas of greatest risk. The costs of agreed-upon procedures engagements is an allowable cost to the pass-through entity if the agreed-upon procedures are performed for subrecipients below the A-133 threshold for audit (currently at \$300,000) for the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, earmarking; and reporting (OMB Circular A-133 ('____.230(b)(2)).

Condition

Home Energy Assistance benefits are paid by the Department based upon an extraction process from the FAMIS system. Data entry to determine eligibility is done at the county welfare agency (CWA) level. During 2003, 2002, 2001, and 2000, the Department did not have procedures in place to monitor these activities at the CWA level for this program. For Federal fiscal year 2003, approximately \$28 million of benefit payments were paid based on the CWAs data entry. In July 2002, in response to the prior year audit findings, management distributed corrective action procedures in a memorandum that was intended to be implemented in fiscal year 2003; however, no action was taken.

A similar finding was included in the 2002, 2001, and 2000 prior year single audit reports as items 02-8, 01-8, and 00-32, respectively.

Cause

During the 2003, 2002, 2001, and 2000 State fiscal years, there were no procedures in place to monitor the subrecipient's eligibility determinations.

Effect

Benefit payments could be made to ineligible recipients.

Recommendation

We recommend that the Department perform monitoring procedures of the CWAs to ensure that they are administering the program in compliance with Federal regulations.

Related Noncompliance

Based on the above, the Department was not in compliance with this requirement.

Questioned Costs

None

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Foster Care – Title IV-E (93.658)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-9

Criteria

Activities Allowed

- a. Funds may be expended for Foster Care maintenance payments on behalf of eligible children, in accordance with the State's Foster Care maintenance payment rate schedule, to individuals serving as foster family homes, to child-care institutions, or to public or non-profit child-placement or child-care agencies. Such payments may include the cost of (and the cost of providing, including the associated administrative and operating costs of an institution) food, clothing, shelter, daily supervision, school supplies, personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation (42 USC 672(b)(1) and (2), (c)(2), and 675(4)).
- b. Funds may be expended for training (including both short and long-term training at educational institutions through grants to such institutions or by direct financial assistance to students enrolled in such institutions) of personnel employed or preparing for employment by the agency administering the plan (42 USC 674(a)(3)(A)).
- c. Funds may be expended for short-term training, including associated travel and per diem, of foster parents and staff of licensed or approved child-care institutions at the initiation of or during their period of care (45 CFR section 1356.60(c)(4)).
- d. Funds may be expended for costs directly related to the administration of the program, including those associated with eligibility determination and redetermination; referral to services; placement; preparation for and participation in hearings and appeals; rate setting; recruitment and licensing of foster homes and institutions; and a proportionate share of related agency overhead (45 CFR section 1356.60(c)).
- e. With any required ACF approval, funds may be expended for costs related to design, implementation and operation of a State-wide data collection system (45 CFR sections 1356.60(d) and 95.611)).

Condition

One of the twenty timesheets selected for testwork was not approved by a supervisor.

Cause

Inadequate supervisory review and approval of hours charged to the Federal program.

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Effect

Salary expenditures claimed are not properly supported by certified timesheets.

Recommendation

We recommend that the Department ensure that all timesheets contain evidence of supervisory review and approval.

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Foster Care – Title IV-E (93.658)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-10

Criteria

Foster Care benefits may be paid on behalf of a child only if all of the following requirements are met:

- a. Foster Care maintenance payments are allowable only if the foster child was removed from his or her home by means of a judicial determination or pursuant to a voluntary placement agreement, as defined in 42 USC 672(f) (42 USC 672(a) and 45 CFR 1356.21).

(1) *Judicial Determination*

- (a) *Contrary to the welfare determination* – If the removal was by judicial determination, the first court ruling that sanctions (even temporarily) the removal of a child from the home of a specified relative must contain language to the effect that remaining at home would be contrary to the child's welfare. If the determination regarding contrary to the welfare is not made in the first court ruling pertaining to the removal from the home, the child is not eligible for Foster Care maintenance payments for the duration of that stay in Foster Care (45 CFR Section 1356.21(c)).
- (b) *Removal from home of a specified relative* – Within 60 days from the date of the removal from home pursuant to 45 CFR 1356.21(k)(ii), there must be a judicial determination as to whether reasonable efforts were made, or were not required to prevent the removal (e.g., child subjected to aggravated circumstances such as abandonment, torture, chronic abuse, sexual abuse, parent convicted of murder or voluntary manslaughter or aiding or abetting in such activities). If the determination regarding reasonable efforts to prevent removal is not made, the child is not eligible for Foster Care maintenance payments for the duration of that stay in Foster Care (45 CFR 1356.21(b)(1) and (k)).
- (c) *Permanency plan* – A judicial determination regarding reasonable efforts to finalize the permanency plan must be made within 12 months of the date on which the child is considered to have entered Foster Care and at least once every 12 months thereafter while the child is in Foster Care. If a judicial determination regarding reasonable efforts to finalize a permanency plan is not made within this timeframe, the child is ineligible at the end of the 12th month from the date the child was considered to have entered Foster Care or at the end of the month in which the subsequent judicial determination of reasonable efforts was due, and the child remains ineligible until such a judicial determination is made (45 CFR 1356.21(b)(2)).
 - (i) *Prior to March 27, 2000* – For a child who entered Foster Care on or before March 27, 2000, the judicial determination of reasonable efforts to finalize the permanency plan must be made no later than March 27, 2001, because such child will have been in care for 12 months or longer (January 25, 2000, *Federal Register* (65 FR 4020)).

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- (ii) *After March 27, 2000* – For a child who enters care after March 27, 2000, the judicial determination of reasonable efforts to finalize the permanency plan must be made no later than 12 months from the date the child is considered to have entered Foster Care (January 25, 2000, *Federal Register* (65 FR 4020)).
- (2) If the removal was by a voluntary placement agreement, it must be followed within 180 days by a judicial determination to the effect that such placement is in the best interests of the child (42 USC 672(e); and 45 CFR Section 1356.30(b)).
- b. The child's placement and care are the responsibility of either the State agency administering the approved Title IV-E plan or any other public agency under a valid agreement with the cognizant State agency (42 USC 672(a)(2)).
- c. A child must meet the eligibility requirements of the former Aid to Families with Dependent Children (AFDC) program (i.e., meet the State-established standard of need as of July 16, 1996, prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act).

Condition

Of the thirty children (fifteen voluntary and fifteen involuntary) selected for testwork, twenty-eight case files did not contain a IV-E eligibility determination/redetermination form for State fiscal year 2003; one voluntary case file did not contain a signed Informed Consent Agreement; six voluntary case files did not contain a judicial determination filed within 180 days stating that such placement is in the best interests of the child; and one involuntary case file did not contain the judicial determination removing the child from her home. The total payments made in connection with the cases referred to above for the year ended June 30, 2003 was \$97,419.

A similar finding was noted in the 2002, 2001 and 2000 prior year single audit reports as item 02-9, 01-12 and 00-21, respectively.

Cause

Case files lacked the necessary documentation, i.e., voluntary agreement, judicial determination, IV-E eligibility form, due to improper filing.

Effect

Payments were made to foster parents and foster care provider facilities for ineligible children.

Recommendation

The Department should ensure that the Title IV-E case files are complete and accurate for proper eligibility determination.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

\$97,419

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Foster Care – Title IV-E (93.658)

Adoption Assistance (93.659)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-11

Criteria

ACF-IV-E-1, *Foster Care and Adoption Assistance Financial Report (OMB No. 0970-0205)* – States report current expenditures for the previous quarter. States may also report adjustments to prior quarter costs for the prior two years.

Condition

A. Foster Care and Adoption Assistance

The supporting documentation for the quarter ended March 31, 2003 was dated improperly as March 31, 2002. No documentation could be provided by the Department to prove that the supporting documentation was proper for the quarter ended March 31, 2003.

B. Foster Care

The supporting documentation for the quarter ended March 31, 2003 ACF-IV-E-1 report provided by the Department agreed to the ACF-IV-E-1 report submitted; however, the summary spreadsheet used to prepare the report for one prior period adjustment did not agree to the supporting documentation. The line item not properly reported is as follows:

	<u>Per 3/31/03 summary spreadsheet</u>	<u>Per supporting documentation</u>	<u>Over (under) reported</u>
Case planning and management	\$ 9,633,059	9,663,059	<u>(30,000)</u>
Total under-reported			\$ <u><u>(30,000)</u></u>

C. Foster Care

Our testwork of the quarter ended March 31, 2003, ACF-IV-E-1 report, Part 2, noted that the Federal share for two of twenty prior period adjustments claimed were calculated at an incorrect Federal financial participation rate of 75%. However, Part 1 of the report properly reported the prior period adjustments using the Federal financial participation rate of 50%. Therefore, no questioned costs resulted from this error.

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Cause

The computer system that generates the report was undergoing an upgrade and printed the incorrect date on the report.

The Federal financial participation rate utilized in preparation of Part 2 of the report was incorrect. This error was not identified during management's review of the report.

Effect

The supporting documentation used to prepare the ACF-IV-E-1 report could be reported in the wrong time period.

Part 2 of the report was submitted with incorrect information.

Recommendation

We recommend that the Department strengthen procedures to ensure the ACF-IV-E-1 report is accurate and properly reviewed prior to the reports submission to the Federal Government.

Related Noncompliance

Based on the above, the Department was not in compliance with this requirement.

Questioned Costs

A. The Federal share of current quarter expenditures for the quarter ended March 31, 2003 for which supporting documentation could not be provided was \$9,129,090 and \$3,453,602 for Foster Care and Adoption Assistance, respectively.

The Federal share of prior quarter adjustments for the quarter ended March 31, 2003 for which supporting documentation could not be provided was \$8,429,165 and \$1,644,353 for Foster Care and Adoption Assistance, respectively.

B. None

C. None

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Foster Care – Title IV-E (93.658)

Adoption Assistance (93.659)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-12

Criteria

ACF-IV-E-1, *Foster Care and Adoption Assistance Financial Report (OMB No. 0970-0205)* – States report current expenditures for the previous quarter. States may also report adjustments to prior quarter costs for the prior two years.

Condition

The ACF-IV-E-1 report for the quarter ended March 31, 2003 was submitted 56 days late.

A similar finding was included in the 2002 prior year single audit report as item 02-10.

Cause

Late submission of the reports was due to personnel changes at the Division level.

Effect

Report not submitted within the required timeframes.

Questioned Costs

None

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Adoption Assistance (93.659)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-13

Criteria

Adoption assistance subsidy payments may be paid on behalf of a child only if all of the following requirements are met:

- The child is Title IV-E foster care eligible; is eligible for the former Aid to Families with Dependent Children (AFDC) program (i.e., meet the State-established standard of need as of July 16, 1996, prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act); or is eligible for SSI (42 USC 673(a)(2)(A)).
- The child was determined by the State to be a child with special needs (42 USC 673(c)).
- The State has made reasonable efforts to place the child for adoption without a subsidy (42 USC 673(c)).
- The agreement for the subsidy was signed and was in effect before the final decree of adoption and contains information concerning the nature of services; the amount and duration of the subsidy; the child's eligibility for Title XX services and Title XIX Medicaid; and covers the child should he/she move out of State with the adoptive family (42 USC 675(3)).

Condition

Of the thirty cases selected for review, nine cases had IV-E determinations completed after the finalized adoption date, nine cases did not have a IV-E determination, eleven cases did not have some or all Subsidy Agreement Renewals since the child's adoption was finalized, four cases had Adoption Subsidy Agreements finalized after the adoption date, one case did not have a signed Adoption Subsidy Agreement, one case did not contain documentation indicating the finalized adoption case, one case did not have a complete Determination of Eligibility for Subsidy, one case did not have documentation indicating the child's special needs, two cases did not contain documentation indicating financial eligibility, one case had a Determination of Eligibility for Subsidy completed after the finalized adoption date, and one case did not have a complete Adoption Subsidy Agreement. In addition, the Department could not provide the file for one of thirty cases. The total payments made in connection with the cases referred to above for the year ended June 30, 2003 was \$68,475.

A similar finding was noted in the 2002, 2001 and 2000 prior year single audit reports as item 02-11, 01-13 and 00-22, respectively.

Cause

There is a lack of controls at the Adoption Resource Centers' requiring signed documentation and proper filing of documents.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Effect

Claims are made to the Federal Government for children that are not Title IV-E eligible or whom Adoption Subsidy Agreements may not have been completed and signed prior to the finalization of the adoption decree.

Recommendation

We recommend that the Department ensure the required documentation is maintained and strengthen internal controls over the system for entering eligibility.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

\$68,475

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Social Services Block Grant (93.667)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-14

Criteria

Services provided with SSBG funds may include, but are not limited to, child care services, protective services for children and adults, services for children and adults in foster care, services related to the management and maintenance of the home, day care services for adults, transportation services, family planning services, training and related services, employment services, information, referral, counseling services, the preparation and delivery of meals, health support services and appropriate combinations of services designed to meet the special needs of children, the aged, the mentally retarded, the blind, the emotionally disturbed, the physically handicapped, and alcoholics and drug addicts (42 USC 1397a(a)). Uniform definitions for these services are included in Appendix A to 45 CFR part 96 - Uniform Definitions of Services.

Expenditures for these services may include expenditures for administration, including planning and evaluation, personnel training and retraining directly related to the provision of those services (including both short- and long-term training at educational institutions), and conferences and workshops and assistance to individuals participating in such activities (42 USC 1397a(a)).

Condition

One of the twelve timesheets selected for testwork was not approved by a supervisor.

A similar finding was included in the 2002 prior year single audit report as item 02-13.

Cause

Inadequate supervisory review and approval of hours charged to the Federal program.

Effect

Salary expenditures claimed are not properly supported by certified timesheets.

Recommendation

We recommend that the Department ensure that all timesheets contain evidence of supervisory review and approval.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

State Children's Insurance Program (93.767)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-15

Criteria

States have flexibility in determining eligibility levels for individuals for whom the State will receive enhanced matching funds within the guidelines established under the Act. Generally, a State may not cover children with higher family income without covering children with a lower family income, nor deny eligibility based on a child having a preexisting medical condition. States are required to include in their State plans a description of the standards used to determine eligibility of targeted low-income children. State plans should be consulted for specific information concerning individual eligibility requirements (42 USC 1397bb(b)).

Condition

The State utilizes a third party service provider, Maximus, to process eligibility cases for State Children's Insurance Program. The State does not have procedures in place to monitor the eligibility determinations made by the third party service provider, other than presumptive eligibility, on a routine annual basis. For the fiscal year 2003, the Division of Medical Assistance and Health Services Bureau of Quality Control (BCU) as a result of a special project reviewed eligibility determinations made by the third party service provider on a total of 180 cases labeled for Plan B, C, and D.

In addition, the State monitors the third party service provider on a monthly basis to ensure that the third party service provider follows up on individuals granted presumptive eligibility by the State. The State selects a sample of ten presumptive eligibility cases per month and verifies that the third party service provider completed the proper disposition of the cases. The State was unable to provide documentation supporting the presumptive eligibility reviews for the month of September 2002, however, there was evidence indicating this review for the remaining months of the fiscal year.

A similar finding was noted in the 2002 prior year single audit report as item 02-3.

Cause

There are no procedures in place to monitor eligibility determinations made by the third party service provider on a routine basis, other than presumptive eligibility, and supporting documentation of presumptive eligibility reviews performed could not be located.

Effect

Ineligible individuals could be receiving benefits.

Recommendation

We recommend that the State implement procedures to monitor eligibility determinations made by the third party service provider on a routine annual basis and ensure all supporting documentation is maintained.

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Related Noncompliance

Based on the above, the State was not fully in compliance with this requirement.

Questioned Costs

Cannot be determined.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Medical Assistance Program (93.778)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-16

Criteria

In order to receive Medicaid payments, providers of medical services furnishing services must be licensed in accordance with Federal, State, and local laws and regulations to participate in the Medicaid program (42 CFR Sections 431.107 and 447.10; and Section 1902 (a)(9) of the Social Security Act) and the providers must make certain disclosures to the State (42 CFR subpart B).

Condition

During Fiscal Year 2003, the third party processor UNISYS enrolled 100% of non-long term care providers to receive Medicaid payments; however, the State did not have monitoring procedures in place to ensure proper eligibility criteria were being followed by the third party processor.

A similar finding was noted in the 2002 prior year single audit report as item 02-16.

Cause

The provider enrollment unit failed to have proper monitoring procedures over third party processor's enrollment process of providers.

Effect

The Department is not in compliance with the above federal requirement.

Recommendation

We recommend that the Department put in place proper monitoring procedures over the third party provider's enrollment process.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

Cannot be determined.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Social Services Block Grant (93.667)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-17

Criteria

The State shall use all of the amount transferred in from TANF (CFDA 93.558) only for programs and services to children or their families whose income is less than 200% of the official poverty guideline as revised annually by HHS.

Condition

The Department provided \$8,547,000 of the amount transferred in from TANF to the County Welfare Agencies (CWAs) during fiscal year 2003. The Department does have a process in place whereby it circulates to the CWAs a random moment observation form to monitor the CWAs utilization of the transfer funds. During fiscal year 2003, the Department collected these forms, however no action was taken by the State to analyze or review the forms to ensure the transfer funds were utilized only for programs and services to children or their families whose income is less than 200% of the official poverty guideline as revised annually by HHS.

A similar finding was noted in the 2002, 2001, and 2000 prior year single audit reports as item 02-12, 01-15, and 00-23, respectively.

Cause

Due to limited staffing requirements no resources were available to review the random moment observation forms received from the CWAs.

Effect

The CWAs may be using TANF funding for programs and services other than those for children or their families whose income is less than 200% of the official poverty guideline as revised annually by HHS.

Recommendation

We recommend that the Department implement procedures to analyze and review the random moment observation forms received from the CWAs to determine that the amounts transferred from TANF are used in accordance with Federal regulations.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

The questioned costs associated with this finding are \$8,547,000.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Social Services Block Grant (93.667)

State Agency: Department of Human Services

Department of Health and Senior Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-18

Criteria

SSBG funds must be expended by the State in the fiscal year allotted or in the succeeding fiscal year (42 USC1397a(c)).

Condition

The State did not comply with the period of availability requirement as the Department of Health and Senior Services expended funds related to the program during State fiscal year 2003, which were appropriated in fiscal years 1998 and 1999. The expenditures made outside of the period of availability were \$188,833 and \$201,322 for State fiscal years 1998 and 1999, respectively.

Cause

The Department of Health and Senior Services expends funds for this program while the reporting requirements and monitoring of compliance is performed by the Department of Human Services. The Department of Human Services was not aware of the payments made by the Department of Health and Senior Services.

Effect

The expenditures were not made within the period of availability.

Recommendation

We recommend that the Department of Health and Senior Services implement channels of communication with the Department of Human Services regarding program expenditures and ensure all costs incurred are within the period of availability.

Related Noncompliance

Based on the above, the Departments were not fully in compliance with this requirement.

Questioned Costs

\$390,155.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Social Services Block Grant (93.667)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-19

Criteria

Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). These other forms may include financial, performance, and special reporting. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis. The awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats.

Condition

The Office of Management and Budget, NJ Department of Treasury generates the Schedule of Expenditures of Federal Awards (SEFA) from the State's underlying financial records on the central accounting system. The Department of Human Services prepares the Federal financial status reports (FFSR's) for the various programs from various sources, which include the Division Cost Allocation Plan, and others. The Department of Human Services does not routinely reconcile the amounts reported on the FFSR's to the underlying financial records of the State.

During our testwork, the FFSR's were used to test the accuracy of the Federal share of expenses. In comparing the amounts reported on the SEFA with amounts shown on FFSR's for the programs listed above, we noted that amounts per the SEFA did not agree to amounts shown on the FFSR's and could not be reconciled by the Department. These differences are as follows:

CFDA number		SEFA	FFSR's	Difference
93.667	\$	62,964,178	67,228,097	(4,263,919)

A similar finding was noted in the 2002, 2001, and 2000 prior year single audit reports as item 02-15, 01-17, and 00-2, respectively.

Cause

The expenditures charged to the programs by the Department on the FFSR's are not reconciled to the amounts reported on the SEFA, which are supported by the underlying financial records.

Effect

The expenditures reported on the FFSR's are not supported by the State's underlying financial records.

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Recommendation

We recommend that the Department implement procedures to routinely reconcile the expenditures reported in the FFSR's to the State's underlying financial records maintained on the State's central accounting system.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

Cannot be determined.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Foster Care – Title IV-E (93.658)

Adoption Assistance (93.659)

State Agency: Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-20

Criteria

Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). These other forms may include financial, performance, and special reporting. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis. The awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats.

Condition

The Office of Management and Budget, NJ Department of Treasury generates the Schedule of Expenditures of Federal Awards (SEFA) from the State's underlying financial records on the central accounting system. The Department of Human Services prepares the Federal financial status reports (FFSR's) for the various programs from various sources, which include the Division Cost Allocation Plan, and others. The Department of Human Services does not routinely reconcile the amounts reported on the FFSR's to the underlying financial records of the State. A reconciliation was performed upon our audit inquiry but is not done on a continuing basis.

During our testwork, the FFSR's were used to test the accuracy of the Federal share of expenses. In comparing the amounts reported on the SEFA with amounts shown on FFSR's for the programs listed above, we noted that amounts per the SEFA did not agree to amounts shown on the FFSR's and could not be reconciled by the Department. These differences are as follows:

CFDA number		SEFA	FFSR's	Difference
93.658	\$	60,034,650	60,877,827	843,177
93.659		19,758,642	21,572,779	1,814,137

A similar finding was noted in the 2002, 2001, and 2000 prior year single audit reports as item 02-15, 01-17, and 00-2, respectively.

Cause

The expenditures charged to the programs by the Department on the FFSR's are not routinely reconciled to the amounts reported on the SEFA, which are supported by the underlying financial records.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Effect

The expenditures reported on the FFSR's may not be supported by the State's underlying financial records.

Recommendation

We recommend that the Department implement procedures to routinely reconcile the expenditures reported in the FFSR's to the State's underlying financial records maintained on the State's central accounting system.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

Cannot be determined.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Weatherization Assistance for Low-Income Persons (81.042)

Low-Income Home Energy Assistance (93.568)

Community Services Block Grant (93.569)

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Energy

U.S. Department of Health and Human Services

Finding: 03-21

Criteria

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 and all nonprocurement transactions (e.g., subawards to subrecipients).

Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. The non-Federal entities may rely upon the certification unless it knows that the certification is erroneous.

Condition

The Department does not have a process in place to ensure that its subrecipients have not been suspended or debarred. The Department enters into grant/contract agreements with its subrecipients of the programs. This grant/contract agreement is utilized by the Department to inform the subrecipients of the procedures/regulations which they must adhere to. Other than a generic reference to comply with OMB Circular A-133 in the grant/contract agreement, there are no notifications to the subrecipient regarding the suspension and debarment requirement. For State fiscal year 2003, approximately \$3.5 million was provided to the twenty subrecipients of the program.

A similar finding was noted in the 2002 prior year single audit report for Weatherization Assistance for Low-Income Persons as item 02-23. A similar finding was noted in the 2002, 2001, and 2000 prior year single audit reports for Low-Income Home Energy Assistance and Community Services Block Grant as items 02-20, 01-22, and 00-15, respectively.

Cause

The Department has not yet implemented corrective action related to this requirement.

Effect

The Department could be funding subrecipients that are suspended or debarred.

Recommendation

We recommend that the Department implement procedures to ensure subrecipients have not been suspended or debarred.

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Related Noncompliance

Based on the above, the Department was not in compliance with this requirement.

Questioned Costs

None

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Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Weatherization Assistance for Low-Income Persons (81.042)

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Energy

Finding: 03-22

Criteria

Not more than 10 percent of funds may be used in total or in part for administrative costs. A State shall not expend more than 5 percent for such administrative costs, with at least 5 percent going to subrecipients for administration. Subrecipients may spend no more than 10 percent of the grant for administration; however, for subrecipients receiving grants less than \$350,000, a State may permit that entity to expend more than 10 percent of its subgrant for administrative purposes (10 CFR section 440.18(d)).

Not more than 10 percent of the funds may be used to provide, directly or indirectly, training and/or technical assistance to any grantee or subgrantee (10 CFR section 440.23(e)).

Condition

Our testwork of the program year ended March 31, 2003 noted that more than 10 percent of funds were used in total or in part for administrative costs.

Also, for four out of five subrecipients selected for testwork, the subrecipients spent more than 10 percent of the grant for administration and these subrecipients received grants in excess of \$350,000.

Cause

Unknown.

Effect

The Department is spending Federal funds in excess of the earmarking requirement.

Recommendation

We recommend that the Department strengthen procedures to ensure the Federal funds are spent within the applicable earmarking percentages.

Related Noncompliance

Based on the above, the Department was not in compliance with this requirement.

Questioned Costs

Cannot be determined.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Weatherization Assistance for Low-Income Persons (81.042)

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Energy

Finding: 03-23

Criteria

The State is required to submit the SF-269 *Financial Status Report* and a Quarterly Program Report on a quarterly basis.

Condition

The supporting documentation for the quarter ended March 31, 2003 SF-269 report provided by the Department did not agree to the underlying data submitted from two subgrantees. The line items that did not agree to underlying documentation are as follows:

	<u>Per March 31, 2003 supporting documentation *</u>	<u>Per subgrantee submitted documentation</u>	<u>Over (under) reported</u>
Liability insurance	\$ 1,238	3,219	(1,981)
Training and technical assistance	14,493	12,712	1,781
Standard program operations total – program support	234,032	233,852	180
Total over-reported			1,961
Total under-reported			(1,981)
Net over (under)		\$	(20)

* Amount included in March 31, 2003 support column only represents the two subrecipients not properly recorded.

Additionally, the supporting documentation for the quarter ended March 31, 2003 Quarterly Program Report provided by the Department did not agree to the underlying data submitted from two subgrantees.

A similar finding was noted in the 2002 prior year single audit report as item 02-22.

Cause

Unknown.

Effect

The Department is not claiming its actual expenditures to the Federal Government as well as not reporting accurate production information.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Recommendation

We recommend that the Department strengthen its procedures to ensure supporting documentation is maintained and the expenditures are properly reported to the Federal Government.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

Over-reported \$1,961 and under-reported \$1,981.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Community Services Block Grant (93.569)

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-24

Criteria

Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). These other forms may include financial, performance, and special reporting. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis. The awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats.

Condition

The Office of Management and Budget, NJ Department of Treasury generates the Schedule of Expenditures of Federal Awards (SEFA) from the State's underlying financial records on the central accounting system. The Department of Community Affairs prepares the Federal financial status reports (FFSR's) for the Community Services Block Grant program from the New Jersey Comprehensive Financial System. The Department of Community Affairs does not routinely reconcile the amounts reported on the FFSR's to the underlying financial records of the State nor could the Department provide a reconciliation of the amounts reported on the SEFA with amounts shown on FFSR's for the Community Services Block Grant.

Cause

The expenditures charged to the program by the Department on the FFSR's are not reconciled to the amounts reported on the SEFA, which are supported by the underlying financial records.

Effect

The expenditures reported on the FFSR's may not be supported by the State's underlying financial records.

Recommendation

We recommend that the Department implement procedures to routinely reconcile the expenditures reported in the FFSR's to the State's underlying financial records maintained on the State's central accounting system.

Related Noncompliance

Based on the above, the Department was not in compliance with this requirement.

Questioned Costs

Cannot be determined.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Community Services Block Grant (93.569)

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-25

Criteria

SF-269A, *Financial Status Report* (Short Form) – After the close of each statutory period for the expenditure of block grant funds, each grantee shall report to the Department total funds expended by the grantee during the statutory period, and the date of the last expenditure (45 CFR 96.30(b)(3)).

Condition

The September 30, 2002 SF-269A report selected for testwork was not properly prepared as it included expenditures through December 2002. Two line items were improperly calculated, one line item did not agree to supporting documentation, and an additional line item contained a transposed number. Additionally, there was no segregation of duties in the preparation and review of the September 30, 2002 SF-269A report prior to its submission.

Cause

There was no segregation of duties in the preparation and review of this report prior to submission to the Federal government.

Effect

The Department did not claim accurate expenditures to the Federal Government for the quarter ended September 30, 2002.

Recommendation

We recommend that the Department implement procedures to ensure the Federal financial report is properly completed, supported by accurate documentation, and is appropriately reviewed by a supervisor prior to its submission.

Related Noncompliance

Based on the above, the Department was not in compliance with this requirement.

Questioned Costs

The September 30, 2002 SF-269A report included Federal expenditures of \$13,866,788.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Community Services Block Grant (93.569)

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-26

Criteria

Subgrants may be made to the following entities, based on receipt of a community plan (42 USC 9908(b)(11):

- a. A private non-profit organization (including migrant farm worker organization) with a pre-existing designation as an "eligible entity" immediately prior to enactment of the new CSBG Act on October 27, 1999, and with a governance mechanism meeting the tripartite governing board requirement specified in 42 USC 9910(a)).
- b. A subdivision of State government with a pre-existing designation as an "eligible entity" immediately prior to enactment of the new CSBG Act, with a governance mechanism meeting either the "tripartite" board requirements or otherwise assuring decision-making and participation by low-income individuals in the development, planning, implementation, and evaluation of CSBG-funded programs (42 USC 9910(b)).
- c. A private non-profit organization or subdivision of State government newly designated by the State after October 27, 1999 as an "eligible entity" to provide services in an unserved area, in accordance with the criteria, requirements, and procedures specified by 42 USC 9909.

Condition

Six of six subgrants selected for testwork were made to eligible entities with pre-existing designations. However, two of six were private nonprofit organizations that did not have a governance mechanism meeting the tripartite governing board requirements. Also, three of six were subdivisions of State government that the Department did not provide documentation to support that they had a governance mechanism meeting either the "tripartite" board requirements or otherwise assuring decision-making and participation by low-income individuals in the development, planning, implementation, and evaluation of CSBG-funded programs. The five entities received subgrants of \$3,823,504 for Federal fiscal year 2002.

A similar finding was noted in the 2002, 2001, and 2000 prior year single audit reports as item 02-19, 01-21, and 00-16, respectively.

Cause

The agencies funded by the State were eligible subrecipients prior to the State assuming the administrative responsibilities of the program from the Federal Government. The State was required to continue funding these agencies until procedures to defund are completed.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Effect

Subgrants are made to private nonprofit organizations that do not have a governance mechanism meeting the tripartite governing board requirements and subdivisions of state government that do not have a governance mechanism meeting either the “tripartite” board requirements or otherwise assuring decision-making and participation by low-income individuals.

Questioned Costs

None

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Weatherization Assistance for Low-Income Persons (81.042)

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Energy

Finding: 03-27

Criteria

Activities Allowed or Unallowed

1. *Allowable activities include only:*

- a. The cost of purchase and delivery of weatherization materials (10 CFR section 440.18(c)(1)). Funds may only be expended on weatherization materials listed in Appendix A of 10 CFR part 440 or as approved by DOE.
- b. Labor costs in accordance with 10 CFR section 440.19.
- c. Transportation of weatherization materials, tools, and equipment, and work crews to a storage site and/or to the site of weatherization work (10 CFR section 440.18(c)(3)).
- d. Maintenance, operation, and insurance of vehicles used to transport weatherization materials (10 CFR section 440.18(c)(4)).
- e. Maintenance of tools and equipment (10 CFR section 440.18(c)(5)).
- f. Purchase or annual lease of tools, equipment and/or vehicles, except that any purchase of vehicles shall be referred to DOE in every instance (10 CFR section 440.18(c)(6)).
- g. Employment of on-site supervisory personnel (10 CFR section 440.18(c)(7)).
- h. Storage of weatherization materials, tools and equipment (10 CFR section 440.18(c)(8)).
- i. The costs of incidental repairs to make the installation of weatherization materials effective (10 CFR section 440.18(c)(9)).
- j. The cost of liability insurance for weatherization projects for personal injury and property damage (10 CFR section 440.18(c)(10)).
- k. The cost of carrying out low cost/no cost weatherization assistance (10 CFR section 440.20).
- l. The cost of WAP financial audits in accordance with 10 CFR section 440.23.
- m. Administrative costs (10 CFR section 440.18(c)(13)).
- n. The costs of eliminating health hazards, necessary to ensure the safe installation of weatherization materials (10 CFR section 440.18(c)(15)).

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

- o. Leveraging activities, as specified in leveraging section of the State Plan and grant agreement (10 CFR section 440.18(c)(14)). Leveraging entails a State obtaining additional program-targeted non-Federal or in-kind contributions as a result of WAP funded activities. Leveraging should be limited to contributions that can be clearly attributed to a State's weatherization activities, and that are used to augment those activities.

Condition

The Department did not provide one of the three timesheets selected for testwork.

Cause

The timesheet could not be located due to improper record keeping.

Effect

Salary expenditures claimed are not properly supported by certified timesheets.

Recommendation

We recommend that the Department strengthen its procedures to ensure that all timesheets are kept on file.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

Cannot be determined.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Section 8 Cluster (14.871)

State Agency: Department of Community Affairs

Federal Agency: U.S. Department of Housing and Urban Development

Finding: 03-28

Criteria

Indirect costs are those costs that benefit common activities and, therefore, cannot be readily assigned to a specific direct cost objective or project. Three different types of indirect cost rates that can be used by the cognizant agency for indirect cost negotiation: predetermined, fixed, and provisional final.

- Predetermined rates are established for the current or multiple future period(s) based on current data (usually data from the most recently ended fiscal year, known as the base period). Predetermined rates are not subject to adjustment, except under very unusual circumstances.
- Fixed rates are based on current data in the same manner as predetermined rates, except that the difference between the costs of the base period used to establish the rate and the actual costs of the current period is carried forward as an adjustment to the rate computation for a subsequent period.
- Provisional rates are temporary rates used for funding and billing indirect costs, pending the establishment of a final rate for a period.

Award specific indirect cost rates are sometimes negotiated which are different than those set forth in negotiated rate agreements. Terms and conditions in an award specific to indirect cost rates take precedence over indirect cost rates set forth in negotiated agreements.

Condition

For fiscal 2003 there was no indirect cost rate proposal prepared or submitted to the U.S. Department of Housing and Urban Development (HUD); however, the Department charged indirect costs to the program during the year in the amount of \$734,176, which is listed below as questioned costs. The indirect costs charged to the program were based on the most recent approved cost rate proposal from HUD (2001).

A similar finding was included in the 2002 prior year single audit report as item 02-24.

Cause

As a result of a similar finding in prior year, the Department took necessary actions to submit the IDCRC, however, based on the timing of when the finding was discovered and the information available to develop the IDCRC, they were unable to submit a 2003 IDCRC.

Effect

Indirect costs charged to the program may not be allowable.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Recommendation

The Department should implement procedures to ensure that the required IDCRC is completed and submitted to HUD as required and only indirect costs based on an approved IDCRC should be charged to the program.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

\$734,176

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Special Programs for the Aging-Title III, Part B- Grants for Supportive Services and Senior Centers (93.044)

Special Programs for the Aging-Title III, Part C-Nutrition Services (93.045)

State Agency: Department of Health and Senior Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-29

Criteria

Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). These other forms may include financial, performance, and special reporting. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis. The awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats.

Condition

The Office of Management and Budget, NJ Department of Treasury generates the Schedule of Expenditures of Federal Awards (SEFA) from the State's underlying financial records on the central accounting system as of 6/30/03. The Department of Health and Senior Services, Division of Aging and Community Services, prepares the SF-269 Reports semiannually on a Federal Fiscal year basis for all open grant years. The amounts reported on the SF-269 reports are based on state administrative costs, which are supported by the state accounting system and expenditures of the subrecipients maintained on a separate database. The Department of Health and Senior Services, Division of Aging and Community Services does not routinely reconcile the amounts reported on the SF-269 reports to the amounts reported by the State on the SEFA. A reconciliation was performed upon our audit inquiry but is not done on a continuing basis.

Cause

The Division did not believe that a reconciliation was required based on their interpretation of guidance from the Administration on Aging.

Effect

The expenditures reported on the SF-269's may not be supported by the State's accounting system underlying the financial records of the State.

Recommendation

We recommend that the Department implement procedures to routinely reconcile the expenditures reported in the SF-269's to the State's underlying financial records maintained on the State's central accounting system.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Special Programs for the Aging-Title III, Part B- Grants for Supportive Services and Senior Centers (93.044)

Special Programs for the Aging-Title III, Part C-Nutrition Services (93.045)

State Agency: Department of Health and Senior Services

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-30

Criteria

The State Agency must spend for both services and administration at least the average amount of State funds it spent under the State plan for these activities for the three previous fiscal years. If the State Agency spends less than this amount, the Assistant Secretary for Aging reduces the State's allotments for supportive and nutrition services under this part by a percentage by which the State reduced its expenditures.

Condition

The Department reported that the State resources expended to meet the maintenance of effort requirement were \$1,499,171. No documentation (e.g. invoices or specific transactions) could be provided to support the amount certified nor does the Department separately identify in the State accounting system the amount it has certified.

Cause

The Department reports the amount certified as \$1 more than the amount certified in the three prior fiscal years as directed verbally by the Federal Government and was unaware of the need to maintain supporting documentation or identify the funds spent meeting the certification in the State accounting system.

Effect

Evidence supporting the amount certified is not maintained by the Department.

Recommendation

We recommend that the Department implement procedures to maintain support for the amounts certified as the maintenance of effort for the above programs.

Related Noncompliance

Based on the above, the Department was not in compliance with this requirement.

Questioned Costs

Cannot be determined.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Federal Family Education Loans (84.032)

State Agency: Higher Education Student Assistance Authority

Federal Agency: U.S. Department of Education

Finding: 03-31

Criteria

Unless the guaranty agency uses alternative collection procedures, the guaranty agency must engage in certain collection activities within certain time frames as prescribed by 34 CFR Section 682.410(b)(6) on a loan for which it pays a default claim filed by a lender. These collection activities include written notices, contacts with the borrower, wage garnishment, etc.

Condition

Of the 30 claims selected for testwork, the Authority did not send the 45-day notices to borrowers within the required time period upon the payment of two default claims. These claims were paid on October 31, 2002 and January 30, 2003. As part of the Authority's corrective actions to address the fiscal year 2002 single audit finding, default notification letters were sent to these borrowers on July 23, 2003. In addition, the Authority also sent default notification letters to all other applicable borrowers with defaulted loans to ensure the borrowers received such required notifications.

Of the two claims cited above, both are in repayment, one through a voluntary repayment agreement and one through the federal Administrative Wage Garnishment program, and are being serviced as required by federal guidelines.

A similar finding was noted in the 2002 prior year single audit report as item 02-25.

Cause

During July 2002, the Authority expanded the default master field in the computerized loan records and performed a systems migration, which enhanced the automatic creation of the initial notices. Previously, in place of the computer-generated notices, the investigators prepared manual notices. As part of the Authority's corrective actions to address the fiscal year 2002 single audit finding, the Authority sent default notification letters to all applicable borrowers with defaulted loans to ensure the borrowers received such required notifications and implemented system modifications intended to ensure that all defaulters receive timely notification during fiscal year 2004.

Effect

The Authority did not perform the activity within the required time frame.

Recommendation

We recommend that the Authority ensure notices are sent to borrowers within 45 days after paying a lender's default claim.

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Related Noncompliance

Based on the above, the Authority was not fully in compliance with this requirement.

Questioned Costs

None

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

All Major Programs

State Agency: Department of Treasury, Office of Management and Budget

Federal Agency: U.S. Department of Health and Human Services

Finding: 03-32

Criteria

Section II costs - Direct Costs are chargeable to grant programs in accordance with Circular Letter A-87 and OASC-10.

Condition

The State of New Jersey prepares a Fringe Benefit Rate Proposal for negotiation with the United States Department of Health and Human Services. The negotiated rate is used by all state agencies including state colleges for estimating and computing actual charges for fringe benefit costs related to federal programs in their indirect cost rate proposals, as well as, for direct billing of fringe benefit costs. The negotiated rate applies to personnel who are members of the Public Employees' Retirement System (P.E.R.S.), Teacher's Alternate Benefit Plan (T.A.B.P.), Teacher's Pension and Annuity Fund (T.P.A.F.), Police and Fire Retirement System, and all employees who are not members of a pension plan, but are covered for Health Benefits.

During our audit we noted several errors in the underlying documentation of the fringe benefit rate proposal and final approved fringe benefit plan. The errors were a result of not properly updating prior year spreadsheets, manual inputting errors, and transposition of numbers and were not detected through the State's limited review prior to submission of the plan to the Federal Government. These errors did not have an effect on the final fringe benefit rate negotiated with the Federal Government.

A similar finding was noted in the 2002 prior year single audit report as item 02-26.

Cause

There were manual errors in data entering certain expense amounts in the spreadsheets utilized to calculate the fringe benefit rate.

Effect

There is a potential that the State of New Jersey may utilize or negotiate an incorrect fringe benefit rate.

Recommendation

We recommend that the State strengthen its procedures in the preparation and the review of the proposed fringe benefit rate plan to ensure that all costs and amounts entered to prepare the proposed fringe benefit rate are correct.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)

Child and Adult Care Food Program (10.558)

Head Start (93.600)

Social Services Block Grant (93.667)

State Agency: Department of Agriculture

Federal Agency: U.S. Department of Agriculture

U.S. Department of Health and Human Services

Finding: 03-33

Criteria

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

During-the-Award Monitoring

Following are example factors which may affect the nature, timing, and extent of during-the-award monitoring:

- *Program complexity* - Programs with complex compliance requirements have a higher risk of non-compliance.
- *Percentage passed through* - The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.
- *Amount of awards* - Larger dollar awards are of greater risk.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

- *Subrecipient risk* - Subrecipients may be evaluated as higher risk or lower risk, using techniques such as site visits and closer monitoring for new subrecipients and subrecipients that are otherwise considered higher risk (e.g., based on past history of non-compliance, new personnel, new or substantially changed systems).

Monitoring activities normally occur through-out the year and may take various forms, such as:

- *Reporting* - Reviewing financial and performance reports submitted by the subrecipient.
- *Site Visits* - Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Contact* - Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Agreed-upon procedures engagements

A pass-through entity may arrange for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to areas of greatest risk. The costs of agreed-upon procedures engagements is an allowable cost to the pass-through entity if the agreed-upon procedures are performed for subrecipients below the A-133 threshold for audit (currently at \$300,000) for the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, earmarking; and reporting (OMB Circular A-133 ('____.230(b)(2)).

The requirements for subrecipient monitoring are contained in the 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), OMB Circular A-133 ('____.225 and '____.400(d)), A-102 Common Rule ('____.37 and '____.40(a)), and OMB Circular A-110 ('____.51(a)), Federal awarding agency program regulations, and the terms and conditions of the award.

Condition

The Department of Agriculture is the State cognizant Department that has the responsibility to ensure the timely receipt of quality Single Audit reports from certain grant recipients to which they provide the majority of funding. Additional responsibilities include performance of desk reviews of single audit reports, ensuring that the audit exceptions are resolved, confirmation of independent audit organization external quality control reviews (QCRs), and communication of the results of the desk reviews and QCRs to the Office of Management and Budget, NJ Department of Treasury.

Our testwork over the Department of Agriculture subrecipient monitoring procedures indicated that the Department did not perform follow up procedures with its grant recipients when reports were not received on time, for two of two sampled late reports. The total amount of reports due during the State fiscal year 2003 was nine. Of the nine due as of June 30, 2003, six were received late and one was not received.

In addition, we noted that the Department's desk review process does not include adequate supervisory review to ensure the proper completion of the desk review checklist.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

A similar finding was noted in the 2002 and 2001 prior year single audit reports as items 02-17 and 01-20, respectively.

Cause

The Department could not provide evidence supporting follow-up actions to ensure the subrecipients were submitting the required single audit reports. The individuals performing the reviews and monitoring the reports were not sufficiently trained to identify satisfactory reports in accordance with OMB Circular A-133 as revised June 1997. In addition, the desk reviews were not reviewed.

Effect

Subrecipient reports are not being received or received timely in accordance with Federal regulations and unsatisfactory reports are being accepted.

Recommendation

We recommend that the Department and its Divisions ensure they are performing follow up activities to receive the required single audit reports in accordance with Federal regulations. We also recommend that the Department should ensure the individuals assigned the responsibility of reviewing the subrecipient audit reports are adequately trained and possess the knowledge necessary to identify satisfactory or unsatisfactory reports. We recommend that the Department implement supervisory review procedures to ensure the proper completion of the desk review checklists.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Child and Adult Care Food Program (10.558)

State Agency: Department of Agriculture

Federal Agency: U.S. Department of Agriculture

Finding: 03-34

Criteria

The administering agency is responsible for monitoring the institution's non-profit status to ensure that all reimbursements shall be used solely for the conduct of the food service operation or to improve such food service operations, principally for the benefit of the enrolled participants (7 CFR section 226.7(b)) and 42 USC 1766 (d)(1)(B)).

The administering agency is required to assess institutional compliance by performing onsite reviews of independent centers, sponsoring organizations of centers, and sponsoring organizations of day care homes, including reviews of new organizations, in accordance with a schedule prescribed in 7 CFR section 226.6(l) and 42 USC 1766 (d)(2)(A).

Condition

For the 30 sponsoring agencies selected for testwork, eight reviews were not performed within the required timeframe.

A similar finding was included in the 2002 and 2001 prior year single audit reports as items 02-18 and 01-26, respectively.

Cause

Although the Department continues to make progress in staffing there was a shortage of staff available to perform the audits during 2003.

Effect

The Department did not meet all of its regulatory responsibilities pertaining to the administration of the CACFP.

Recommendation

We recommend that the Department perform reviews of the sponsoring agencies within required timeframes.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

Cannot be determined.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Highway Planning and Construction Cluster (20.205)

State Agency: Department of Transportation

Federal Agency: U.S. Department of Transportation

Finding: 03-35

Criteria

The State shall charge, at a minimum, a fair market value for the sale, lease, or use of real property acquired with Federal assistance from the Highway Trust Fund (other than the Mass Transit Account) for the non-transportation purposes and shall use such income for projects eligible under 23 USC. Exceptions may be granted when the property is used for social, environmental or economic purposes (23 USC 156).

State and local governments may only use the Federal share of net income from the sale, use, or lease of property previously acquired with Federal funds if the income is used for projects eligible under 23 USC (23 USC 156).

Condition

We selected 5 sale and 20 lease transactions for testwork. Of the 20 lease transactions tested, the Department of Transportation (the Department) could not provide sufficient and appropriate audit evidence related to the fair market value determination for 5 of the transactions. In addition, since the fair market value is used to determine the Federal share of net income from the sale, use, or lease of property previously acquired with Federal funds, for the 5 transactions noted as exceptions above we could not determine compliance with program income requirements.

Cause

Not all files are centralized in Department headquarters and certain files, including those located in regional offices, were incomplete and/or were not properly reviewed.

Effect

Income from leased real property acquired with program funds may not reflect the fair market value of the property and program income may not be properly accounted for.

Recommendation

The Department should improve procedures over filing and all files should be periodically reviewed to ensure that the proper documentation regarding the fair market value of the property leased is readily obtainable and the determination of the Federal share of net income is properly recorded.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

Cannot be determined.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Public Assistance Grants (83.544)

State Agency: Department of Transportation
Department of Law and Public Safety

Federal Agency: Federal Emergency Management Agency

Finding: 03-36

Criteria

Each recipient of Federal awards must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis. The awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats.

Condition

The Department of Treasury generates the Schedule of Expenditures of Federal Awards (SEFA) from the State's underlying financial records on the central accounting system. The Department of Law and Public Safety prepares the Federal financial status reports (FFSR's) for the Public Assistance program from various sources, which includes the Smartlink system and information provided by other state departments.

During our testwork, it was determined that \$9,606,857 of 2003 Public Assistance expenditures represented amounts transferred from the Department of Law and Public Safety to the Department of Transportation (DOT), where it was spent on various DOT projects or given to DOT agencies for their expenditure during 2002. However, in the State's underlying financial records DOT did not include these expenditures for the Public Assistance Program until 2003. This is the result of timing differences between the inter-fund expenditures and the New Jersey Comprehensive Financial System. As a result, the 2003 SEFA is overstated by \$9,606,857. It should be noted that the 2002 SEFA was understated by \$9,805,542. The remaining amount of \$198,685 is expected to reverse in 2004.

A similar finding was included in the 2002 prior year audit report as item 02-33.

Cause

The 2002 expenditures made by the DOT related to the Public Assistance Program were recorded by DOT in the State's underlying financial records as the information became available, which was subsequent to June 30, 2002. Therefore, the timing difference caused the expenditures to be excluded from the schedule of expenditures of federal awards for the year ended June 30, 2002 and included in the SEFA for the year ended June 30, 2003.

Effect

The expenditures reported on the 2003 SEFA are overstated by \$9,606,857.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Recommendation

We recommend that the Department implement procedures to routinely reconcile the expenditures reported in the FFSR's to the State's underlying financial records maintained on the State's central accounting system.

Questioned Costs

None

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Public Assistance Grants (83.544)

State Agency: Department of Law and Public Safety

Federal Agency: Federal Emergency Management Agency

Finding: 03-37

Criteria

The allowed activities for the Public Assistance program are for the approved project as described on the project worksheet and supporting documentation. The approved project may be repair of the damaged facility, an improved project, or an alternate project (44 CFR Section 206.203). Allowability criteria for equipment usage, administrative costs, subgrantees, force account labor costs, and insurance and other recoveries are described under 44 CFR Section 206.228(a)(1)-(4).

For large projects, the State is required to make an accounting to FEMA of eligible costs. Similarly, the subgrantee must make an accounting to the State. In submitting the accounting, the entity is required to certify that reported costs were incurred in performance of eligible work, that the approved work was completed, that the project is in compliance with the provisions of the FEMA State Agreement, and that payments for that project were made in accordance with the A-102 Common Rule's payment provisions. For improved and alternate projects, if the total cost of the projects does not equal or exceed the approved eligible costs, then the auditor should expect to see an adjustment to reduce eligible costs (44 CFR Section 206.205).

Condition

Each type of project is designated a specific category, which sets forth the allowable activities and costs. Category B type work is for emergency protective measures. Supporting documentation is required for all costs to determine the allowability of the activities and related costs of the specific disaster recovery effort. Of the thirty payments selected for testing we noted the following:

- Project worksheet #10 was tested and included Category B type work for labor, equipment, materials, and rental costs related to snow removal. Total amounts charged to this project worksheet for Warren County were \$119,115, of which \$6,836 related to ineligible labor costs and is included as questioned costs below.
- Project worksheet #55 was tested and included Category B type work for labor, equipment, materials, and contract costs related to snow removal. Total amounts charged to this project worksheet for Newark City were \$356,113, of which \$15,881 related to ineligible labor costs and is included as questioned costs below.

A similar finding was included in the 2002 prior year single audit report as item 02-29.

Cause

Unknown.

Effect

Certain unallowable costs were charged to the program.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Recommendation

We recommend that the Department implement procedures to ensure proper compliance with all applicable cost principles, and limitations in the program agreement, program regulations, or program statute and to ensure they have obtained adequate documentation to support all costs charged to the program.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

\$22,717

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Emergency Management Performance Grants (83.552)

State Agency: Department of Law and Public Safety

Federal Agency: Federal Emergency Management Agency

Finding: 03-38

Criteria

In accordance with OMB Circular A-87, for those employees who work solely on a single Federal award or cost objective, charges for their salaries and wages must be supported by at least semi-annual certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

For those employees who work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that meets the standards noted below:

- a. They must reflect an after-the-fact distribution of the actual activity of each employee.
- b. They must account for the total activity for which each employee is compensated.
- c. They must be prepared at least monthly and must coincide with one or more pay periods.
- d. They must be signed by the employee.

Condition

For the 20 personal services transactions tested, 10 did not have after the fact certifications prepared or signed by employees working on the grant as required by OMB Circular A-87 to support personnel costs charged to the program. The amount of payroll costs charged during 2003 was \$1,018,124, of which \$59,632 relate to the 10 and are listed below as questioned costs.

A similar finding was included in the 2002, 2001, and 2000 prior year single audit reports as items 02-34, 01-27, and 00-09, respectively.

Cause

The Department did not begin to complete time and effort certifications required under OMB Circular A-133 until midyear 2003.

Effect

Allowability for certain personnel services transactions were not supported.

Recommendation

The Department should improve policies and procedures that ensure documentation and reporting of salaries and wages charged to the program are in accordance with OMB Circular A-87.

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

\$59,632

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Emergency Management Performance Grants (83.552)

State Agency: Department of Law and Public Safety

Federal Agency: Federal Emergency Management Agency

Finding: 03-39

Criteria

The Office of Emergency Management (the Department) shall use, manage, and dispose of equipment under a Federal grant in accordance with State laws and procedures. Equipment purchased with program funding should be properly maintained and safeguarded.

Condition

Of the 15 pieces of equipment tested, 3 were not included in the Department's fixed asset system. The amount of equipment transactions charged during 2003 was \$183,214 of which \$34,704 for the 3 items are listed below as questioned costs.

A similar finding was included in the 2002 prior year single audit report as item 02-36.

Cause

Unknown.

Effect

Certain equipment transactions are not being managed in accordance with Federal regulations.

Recommendation

The Department should implement procedures to ensure the proper management of equipment purchases.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

\$34,704

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Emergency Management Performance Grants (83.552)

State Agency: Department of Law and Public Safety

Federal Agency: Federal Emergency Management Agency

Finding: 03-40

Criteria

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 and all nonprocurement transactions (e.g., subawards to subrecipients).

Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. The non-Federal entities may rely upon the certification unless it knows that the certification is erroneous.

Condition

The Department does not have a process in place to ensure that its subrecipients have provided the proper certification that they have not been suspended or debarred. The Department enters into workplan agreements with its subrecipients of the programs. This grant/contract agreement is utilized by the Department to inform the subrecipients of the procedures/regulations which they must adhere to. There are no specific notifications to the subrecipient regarding the suspension and debarment requirement. During fiscal year 2003, \$1.7 million was funded to subrecipients.

A similar finding was included in the 2002 prior year single audit report as item 02-37.

Cause

The Department no longer uses Program Participation Agreements for its subrecipients, which had previously included the suspension and debarment certification requirement. The Work Plan agreement did not incorporate this requirement.

A similar finding was noted in the 2002 prior year single audit report as finding 02-37.

Effect

The Department could be funding subrecipients that are suspended or debarred.

Recommendation

We recommend that the Department implement procedures to ensure they have obtained proper certification from its subrecipients that they have not been suspended or debarred.

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Related Noncompliance

Based on the above, the Department was not in compliance with this requirement.

Questioned Costs

Cannot be determined.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Emergency Management Performance Grants (83.552)

State Agency: Department of Law and Public Safety

Federal Agency: Federal Emergency Management Agency

Finding: 03-41

Criteria

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

During-the-Award Monitoring

Following are example factors which may affect the nature, timing, and extent of during-the-award monitoring:

- *Program complexity* - Programs with complex compliance requirements have a higher risk of non-compliance.
- *Percentage passed through* - The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.
- *Amount of awards* - Larger dollar awards are of greater risk.
- *Subrecipient risk* - Subrecipients may be evaluated as higher risk or lower risk, using techniques such as site visits and closer monitoring for new subrecipients and subrecipients that are otherwise considered higher risk (e.g., based on past history of non-compliance, new personnel, new or substantially changed systems).

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Monitoring activities normally occur through-out the year and may take various forms, such as:

- *Reporting* - Reviewing financial and performance reports submitted by the subrecipient.
- *Site Visits* - Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Contact* - Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Agreed-Upon Procedures Engagements

A pass-through entity may arrange for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to areas of greatest risk. The costs of agreed-upon procedures engagements is an allowable cost to the pass-through entity if the agreed-upon procedures are performed for subrecipients below the A-133 threshold for audit (currently at \$300,000) for the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, earmarking; and reporting (OMB Circular A-133 ('____.230(b)(2)).

The requirements for subrecipient monitoring are contained in the 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), OMB Circular A-133 ('____.225 and '____.400(d)), A-102 Common Rule ('____.37 and '____.40(a)), and OMB Circular A-110 ('____.51(a)), Federal awarding agency program regulations, and the terms and conditions of the award.

Condition

The Department has procedures in place to monitor the activities and administration of its subrecipients through the performance of on-site reviews. For State fiscal year 2003, approximately \$1.7 million in pass-through payments were provided to the subrecipients.

Of the 30 subrecipients selected for testing, there is no evidence of communications of the required Federal award information (e.g. CFDA title and number, award name, name of Federal Agency) and applicable compliance requirements.

A similar finding was included in the 2002 prior year single audit report as item 02-39.

Cause

The Department no longer uses Program Participation Agreements for its subrecipients, which had previously included the required information. The Work Plan agreement does not incorporate these requirements.

Effect

Inadequate communication could result in errors at the subrecipient level.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Recommendation

We recommend that the Department implement procedures to communicate to the applicants the Federal Award information (e.g. CFDA title and number, award name, and Federal agency) as well as applicable compliance requirements.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

Cannot be determined.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Highway Safety Cluster (20.600, 20.601, 20.604)

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Transportation

Finding: 03-42

Criteria

In accordance with OMB Circular A-87, for those employees who work solely on a single Federal award or cost objective, charges for their salaries and wages must be supported by at least semi-annual certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

For those employees who work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that meets the standards noted below:

- a. They must reflect an after-the-fact distribution of the actual activity of each employee.
- b. They must account for the total activity for which each employee is compensated.
- c. They must be prepared at least monthly and must coincide with one or more pay periods.
- d. They must be signed by the employee.

Condition

For the 30 personal services transactions tested, no after the fact certifications were prepared or signed by employees working on the grant as required by OMB Circular A-87 to support personnel costs charged to the program. The amount of payroll cost charged during our audit period was \$1,833,816 and is listed below as questioned costs.

Cause

The Department was not aware of this requirement.

Effect

Allowability for personnel services transactions cannot be determined.

Recommendation

The Department should implement policies and procedures that ensure documentation and reporting of salaries and wages charged to the program are in accordance with OMB Circular A-87.

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Related Noncompliance

Based on the above, the Department was not in compliance with this requirement.

Questioned Costs

\$1,833,816

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Highway Safety Cluster (20.600, 20.601, 20.604)

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Transportation

Finding: 03-43

Criteria

Funds must be expended as specified in the grantee's highway safety plan. Certain specific costs which will not be approved or that require prior approval have been identified in Highway Safety Grant Funding Policy for the National Highway Traffic Safety Administration (NHTSA)/ Federal Highway Administration (FHWA) Field-Administered Grants and are listed below (23 CFR section 1200.20).

Condition

The Division of Highway Traffic Safety (the Division) of the Department of Law and Public Safety has procedures and controls in place to help ensure that all activities and costs are allowable. The Division requires a purchase order request form to be completed by an employee and then be approved by his or her supervisor and, if the purchase request is greater than \$10,000, approved by the Director of the Division.

Of the thirty other than personal services transactions selected for internal control testwork:

- Four transactions were captured under one blanket purchase order request and did not contain the proper authorized signature of the Director.
- One transaction consisted of four purchase order request forms, of which three did not contain proper approvals.
- Two transactions did not contain the required fiscal approval.
- One transaction related to a travel request form that was missing from the file

Cause

Established internal control procedures were not followed by department personnel.

Effect

Noncompliance with established internal control procedures could result in an unallowable cost or activity being charged to the grant.

Recommendation

We recommended that the Department personnel comply with established internal control procedures to help ensure that all purchase order requests contain proper authorization prior to a purchase order being issued. This will help reduce the chance of an unallowable cost or activity from being charged to the grant.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Highway Safety Cluster (20.600, 20.601, 20.604)

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Transportation

Finding 03-44

Criteria

States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Condition

Of the thirty procurement transactions selected for testwork:

- Four transactions were captured under one blanket purchase order that amounted to \$19,950. A copy of the related purchase order could not be provided. In addition, the related payment voucher was not authorized. The lack of authorization for the payment voucher was also included as an exception in finding 03-43 .
- For one transaction amounting to \$38,750, included as questioned cost below, a copy of the purchase order could not be provided. In addition, the related payment voucher was not authorized. The lack of authorization for the payment voucher was also included as an exception in finding 03-43 .
- The files for three transactions amounting to \$15,571, included as questioned cost below, did not contain evidence of required telephone bids.
- For one transaction amounting to \$1,025, included as questioned cost below, the invoice could not be provided.

Cause

Established internal control procedures were not followed by department personnel or supporting documentation was not properly maintained.

Effect

Noncompliance with procurement procedures as well as established internal control procedures could result in an unallowable cost or activity being charged to the grant.

Recommendation

We recommended that the Department personnel comply with established internal control and other procurement procedures to help ensure that all supporting documentation is maintained and forms contain proper authorization prior to making a purchase using federal grant funds. This will help reduce the chance of an unallowable cost or activity from being charged to the grant.

STATE OF NEW JERSEY
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

Related Noncompliance

Based on the results of our testwork, the Division was not fully in compliance with this requirement.

Questioned Costs

\$75,296

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Highway Safety Cluster (20.600, 20.601, 20.604)

State Agency: Department of Law and Public Safety

Federal Agency: U.S. Department of Transportation

Finding: 03-45

Criteria

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 and all nonprocurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. The non-Federal entities may rely upon the certification unless it knows that the certification is erroneous.

Condition

Of the 30 subrecipients tested, none had proper suspension and debarment certification in the file. For fiscal year 2003, approximately \$2.9 million was funded to subrecipients. In addition, three of the 30 procurement transactions tested were in excess of \$100,000. Of those three none had proper suspension and debarment certification in the file.

Cause

The Department does not have a process in place to ensure that its subrecipients have provided the proper certification that they have not been suspended or debarred. The Department enters into agreements with subrecipients of the program through an application process. This application is utilized by the Department to inform the subrecipients of the procedures/regulations which they must adhere to. There are no specific notifications to the subrecipient regarding the suspension and debarment requirement. The Application does not provide a clause for suspension and debarment certification.

Effect

The Department could be funding subrecipients that are suspended or debarred.

Recommendation

We recommend that the Department implement procedures to ensure they obtain the proper suspension and debarment certification from its subrecipients and contractors.

Related Noncompliance

Based on the above, the Department was not in compliance with this requirement.

Questioned Costs

Cannot be determined.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Employment Services Cluster (17.207, 17.801, 17.804)

Workforce Investment Act Cluster (17.255, 17.258, 17.260)

Rehabilitation Services: Vocational and Rehabilitation Grants to States (84.126)

State Agency: Department of Labor

Federal Agency: U.S. Department of Labor
U.S. Department of Education

Finding: 03-46

Criteria

The general criteria affecting allowability of costs under Federal awards are:

- Costs must be reasonable and necessary for the performance and administration of Federal awards.
- Costs must be allocable to the Federal awards under the provisions of the cost principles or CASB Standards, as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objective in accordance with relative benefits received.
- Costs must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated to the Federal award as an indirect cost.
- Costs must conform to any limitations or exclusions set forth in the circulars, Federal laws, State or local laws, sponsored agreements or other governing regulations as to types or amounts of cost items.
- Costs must be net of all applicable credits that result from transactions that reduce or offset direct or indirect costs. Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments for overpayments or erroneous charges.
- Costs must be documented in accordance with OMB Circular A-110 for non-profit organizations or the A-102 Common Rule for State, local and Indian Tribal governmental units.

Condition

The Time and Leave Reporting System (TALRS) is used to generate payroll and feeds payroll information to the New Jersey Comprehensive Financial System (NJCFIS), which is the system used to generate the Schedule of Expenditures Federal Awards (SEFA). The Department's Cost Accounting System (CAS) breaks down payroll information by project code to determine the amounts to be charged to each Federal program. For 2 of the 75 employees selected for personal services testwork, total hours for each employee per TALRS did not agree to CAS. Amounts charged to the grant per CAS were less than actual hours per TALRS and the SEFA. In addition, for 13 of the 75 employees selected for personal services testwork, total hours for each employee per TALRS agreed to CAS, however, the distribution of vacation, sick, administrative and other time per TALRS did not agree to CAS.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Cause

Reconciliation procedures in place between the CAS and the TALRS were not properly followed in all cases.

Effect

Costs may not properly be recorded in the CAS.

Recommendation

We recommend that the Department improve internal control procedures to ensure that time per TALRS is reconciled with the CAS system on a regular basis and that vacation, sick, administrative and other time is properly tracked.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

There are no questioned costs as the grant was not charged for the excess hours per the TALRS system.

STATE OF NEW JERSEY

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Employment Services Cluster (17.207, 17.801, 17.804)

State Agency: Department of Labor

Federal Agency: U.S. Department of Labor

Finding: 03-47

Criteria

Ten percent of each State's Wagner-Peyser Act allotment shall be reserved by the State Employment Service Agency to provide services and activities authorized by Section 7(b) of the Act (29 USC 49f(b)).

Condition

The Department of Labor (the Department) reports the 10% earmarking requirement when submitting the required SF-269 financial reports to the Federal government. However, the expenditures making up the 10% are not separately tracked by the Department and, therefore, could not be supported.

A similar finding was included in the 2002 prior year single audit report as item 02-28.

Cause

The Department does not have a formal process to track the amounts related to the earmarking requirement.

Effect

The funds required for earmarking may not have been utilized to provide incentives to the various employment agencies in the State of NJ.

Recommendation

We recommend that the Department establish a separate account to record and monitor the 10% set-aside earmarking requirement.

Related Noncompliance

Based on the above, the Department was not in compliance with this requirement.

Questioned Costs

Cannot be determined.